

# Fortune Investments and Assets: Cognitive Biases, Investor Behavior, and the COVID-19 Pandemic

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## EXECUTIVE SUMMARY

*This case study highlights a few prominent cognitive biases influencing investor behavior in India during the COVID-19 pandemic. Financial decisions of an investor are affected by cognitive factors and not just knowledge. Decision-making is not always necessarily rational by nature. Investors are inclined towards irrational decision making quite frequently due to the impact of various cognitive factors. Moreover, the ongoing COVID-19 pandemic has made situations around us extremely precarious. Every business segment has been affected by it, including financial markets. This case study emphasizes significant cognitive biases faced by Stella while investing her and her clients' hard-earned money in the Indian capital markets and expanding her business during COVID-19. She had numerous thoughts and questions in her mind while going through the investment and expansion process ranging from investment amount and options available at her disposal to the level of risk and return involved in each of them. Such apprehensions are also faced by several other investors in India and the world.*

## INTRODUCTION

It was a rainy evening of 2020 and Stella was planning her investments and taxation sitting in front of her laptop with her excel sheet open on the bed in her bedroom. It involved her hard-earned money including all the huge bonuses and incentives she had to her credit after slogging day in and day out for the past 5 years in the cut-throat corporate sector. Any wrong decision taken by her would result in massive

losses and bad tax payments. On the contrary, prudent decisions would lead to drastic increase in her net worth and proper tax planning. She had all the possible investment options written on the excel sheet opened on her laptop screen and was trying to pick the best ones for herself along with deciding on the share of the entire amount she would put in each of them. She had a variety of thoughts and questions in her mind, confirming all the data to checking out the latest market trends to sticking to her knowledge and awareness of the capital markets, she was doing it all. There was complete chaos in her mind. After weighing the advantages and disadvantages of every option available to her, she had to take an instant decision and start moving forward before it was too late.

### **Why Investment and Investor Behaviour?**

Stella D'Souza graduated with an MBA-Finance degree from a Tier-1 B-school in India and like any other individual from a middle-class Indian family, accepted employment offer by a renowned MNC in Bangalore city. After earning for a while, she realized the significance and importance of investment in order to allow her wealth to grow and create a corpus for her old age (post-retirement life). She enrolled into various investment courses and started mastering the financial concept of investment. Soon, she was able to create a strong theoretical knowledge base for herself and also had serious discussions about it with her CA. But when the time came for her to plan her tax and investments, she came across various thoughts and questions ranging from investment amount to investment avenues to the fear of losses and taking wrong decisions as it involved her savings and bonuses that she had earned after putting loads of diligent and sincere efforts in the corporate sector in India.

She also had to focus on her personal life being a quintessential young Indian girl. Her parents wanted her to get married to a well settled boy from a decent family and were hunting for prospective grooms for her. She also wanted to contribute financially towards her wedding expenses and support her parents as she was a single-child, her father was a simple retired government employee, and her mother a traditional Indian housewife. She was also vary of the kind of family she would get married into in near future and if she will have to take up certain more financial liabilities then. Being the only earning member of her family currently, money was her top priority and she could not afford to lose any by making lame decisions.

At the same time, she knows how important investment and financial management is for a professional like her who is not lucky enough like her father to be eligible for the retirement pension scheme by the Indian government. Moreover, if her investments click then, she can take up investment as a career sometime in future and earn a lot more than what she does now by working in the Indian corporate.

Decision -making is not always rational and straight forward as it seems. Therefore, she concluded only having theoretical finance knowledge did not solve the purpose for her. It involves both traditional theoretical finance and cognitive factors that has resulted in the evolution of a new stream of finance called Behavioural Finance which studies the behaviour of an investor while making financial decisions.

### **Investment in India. Why Is India an Upcoming Economic Powerhouse?**

India has a fair share of the world economy and hence the capital markets or the share markets of India form a considerable portion of the world economy. The capital market is vital to the financial system. Fund raisers, fund providers, intermediaries, organizations/FIIs like BSE, NSE, CSDL, NSDL, LIC, etc, and market regulators are the major constituents of the Indian capital markets. The total value of

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