

Chapter 5

Investment Decision– Making and Intricate Role of Behavioral Biases: Delhi–NCR Study

Rohit Kaushik

 <https://orcid.org/0000-0002-4929-5247>

Jagannath International Management School, New Delhi, India

ABSTRACT

The paper is an attempt to study the relationship between different biases and the investment decision-making of the investors, in this study three biases were selected namely Over-confidence bias, disposition bias and Home bias. To achieve the objectives this study gathered data from a sample of 400 respondents and the data analysis took place with the help of SPSS and Warp-PLS. Findings of the study suggested overconfidence bias does not share a significant relationship with investment decision-making but on the other hand disposition and home bias share a significant relationship with investment decision-making.

INTRODUCTION

The stock market has been covered by the traditionalists in the recent decades and the movements of the stock market were seen through the prism of traditional finance theories (Lintner, 1965). These theories emphasized upon the risk and return aspects of the investments. Framework of these theories were based on rationality of the human mind while making investment decisions. But the basic flaw of these theories lies in the assumption of rationality in behavior of individual investors

DOI: 10.4018/979-8-3693-9380-2.ch005

while making investments (Sharpe, 1964; Lintner, 1965; Fama, 1970). Therefore, traditionalists were unable to decode the mystery behind the stock market movements and irrational behavior exhibited by individuals during trading. With these a new study or a new branch of finance evolved known as behavioral finance which emphasized upon the behavioral factors of the investors and the consequences of those decisions taken under undue influence of biases. In other words, emotions, feelings and instincts play a pivotal role in the emergence of irrational decisions taken by investors. Behavioral finance ultimately leads to decoding of mystery behind stock market movements and irrational behavior of investors (Kahneman & Tversky, 1979).

In studies on financial markets institutional investors are found to be smarter with respect to their trading behavior but on the other hand individual investors are termed as noise traders

With the passage of time the behavioral finance theorists found one more important aspect that behavioral biases change their magnitude in different countries. Asian investors have exhibited the traits of herding bias during their trading activities.

Home bias is another bias which plays a pivotal role in shaping the decisions of investors as under the influence of this bias investors tend to stick to their obvious choices and they don't try to experiment to increase their returns. On the other hand, over-confidence bias makes investors place extra-ordinary confidence in their decisions with respect to investment. Disposition bias points to the inclination of the retail investors to sell their profit-making positions as soon as possible while holding on to loss making positions in hope of squaring them off in profit.

In the present study an attempt has been made to understand the linkages between Overconfidence, Disposition and Home biases with Investment Decision Making.

LITERATURE REVIEW

Home Bias

Beracha et al. (2014) considered home bias as closely related to affinity with culture. He found that HNI investors and mutual fund managers tend to trade frequently in those countries which are culturally quite similar to their home country. Fedenia et al. (2013) examined the language aspect in the home bias and the resultant effect on the investment decision making, as according to this study investors coming from English speaking countries tend to exhibit less home bias during trading activities. Anderson et al. (2011) suggested that cultural closeness between the countries of institutional investors and target countries leads to the preference given to the similar country. Suh (2005) in his study showcased evidence

12 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage: www.igi-global.com/chapter/investment-decision-making-and-intricate-role-of-behavioral-biases/365112

Related Content

Acoustic Modeling of Speech Signal using Artificial Neural Network: A Review of Techniques and Current Trends

Mousmita Sarma and Kandarpa Kumar Sarma (2016). *Psychology and Mental Health: Concepts, Methodologies, Tools, and Applications* (pp. 196-212).

www.irma-international.org/chapter/acoustic-modeling-of-speech-signal-using-artificial-neural-network/153399

An Autoethnography of Bangladesh Migrant Workers in Malaysia: Whose Who?

Jahid Siraz Chowdhury, Jaya Devi Rengasamy, Md Taraqul Islam, Sumaiya S. Haque and Md Rafiqul Islam (2026). *Cross-Cultural Approaches to Psychology, Counseling, and Social Work* (pp. 389-416).

www.irma-international.org/chapter/an-autoethnography-of-bangladesh-migrant-workers-in-malaysia/412242

Digital Game Addiction: Research About Children and Adolescents

Inês Relva, Ana Paula Monteiro, Bárbara Costa and Margarida Simões (2023).

Handbook of Research on Perspectives on Society and Technology Addiction (pp. 328-343).

www.irma-international.org/chapter/digital-game-addiction/325198

Internet Addiction: A Modern Societal Problem

Shaun Joseph Smyth, Kevin Curran and Nigel Mc Kelvey (2018). *Psychological, Social, and Cultural Aspects of Internet Addiction* (pp. 20-43).

www.irma-international.org/chapter/internet-addiction/193092

Toward a Typology of Rivalry

Cody T. Havard and Megan E. Lomenick (2019). *Understanding Rivalry and Its Influence on Sports Fans* (pp. 135-155).

www.irma-international.org/chapter/toward-a-typology-of-rivalry/225531