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Abstract

Stock market - a segment of the capital market helps in integrating the worldwide economies which results in availability of endless information and increased awareness among investors regarding stock market functioning. But, the availability of several financial products generally leads to confusion in investor's mind due to which they tend to take decisions emotionally rather than focusing on company's fundamentals. On the contrary, traditional finance theories (EMH) exclaims that investors are perfectly rational and whatever information comes in market is fully reflected in share prices. But various events like dot com bubble, financial crisis 2008 and many more indicates that investors do not behave rationally always rather they involve emotions while taking investment decisions. This irrational behavior of investors give rise to many behavioral biases namely loss aversion bias, regret aversion bias, herding bias, overconfidence bias, representativeness bias, anchoring bias and cognitive dissonance bias. Thus, owing to the imperfections of EMH a new concept of behavioral finance was evolved which shows how the investor's behavior in the share market is shaped by psychological factors and how it affect their decision making process. The present research attempts to examine the impact of various behavioral biases on investor's group of differing characteristics, and to analyze which demographic factor is playing a major role in influencing an investor with a particular bias.

Firstly, in order to study the impact of various behavioral biases on investor's decision-making; the entire sample was segregated in two investor's group each on the basis of specific demographic characteristic, namely investment experience, marital status, age and percentage of savings invested in stock market and analysed using discriminant analysis. Secondly, to examine the impact of demographic variables on decision-making process of investors, the entire sample was changed in binary variables (0, 1) and logistic regression is used for analysis.

The results of the study revealed that on the basis of investment experience categorisation, loss aversion bias, regret aversion bias, anchoring bias and cognitive dissonance bias were exhibited by experienced investors more as compared to less experienced investors. Secondly, when investors were categorised on the basis of age, it was

found that anchoring bias, cognitive dissonance bias and representativeness bias were exhibited by young investors as compared to matured investors. Thirdly, when investors were disintegrated on the basis of their marital status, it was found that married investors were more prone to loss aversion bias, anchoring bias and cognitive dissonance bias as compared to unmarried investors. Finally, after categorising investors on the basis of percentage of savings invested by them in stock market, it was found that regret aversion bias, herd behavior, anchoring bias and cognitive dissonance bias were exhibited by investors who invest more than 20% of their savings in a much more manner as compared to those who invest less than 20% of their savings in share market.

After analysing the impact of demographic variables in influencing an investor with a particular bias, it was found that marital status and investment experience were contributing significantly in influencing the investors from loss aversion bias. For regret aversion bias, intraday trading preference, primary market preference and investment experience were the variables that plays an important role. For herd behavior bias, percentage of savings invested in stock market was the only one which tends to influence an investor. For overconfidence bias, only age and percentage of savings invested by investors in stock market plays a significant role in influencing investors. For anchoring bias, age, qualification, primary market preference and investment experience were the major ones who contributes significantly in influencing the investors. And for representativeness bias, age and qualification were there which are contributing significantly in influencing investors.

Further, as investors who partaken in the survey are not very much familiar with the concept of behavioral finance and are likely to be the victim of many of the biases. They are recommended to upsurge their knowledge on behavioral finance by educating themselves on the subject which will help them in understanding the degree and the manner to which they are likely to be influenced by sentiments while taking investment decisions in uncertain situations. For finance institutes, it is recommended that behavioral finance should be given a due importance in the academic program to make the students well-equip with behavioral finance knowledge so that they can take decisions in pressure condition and uncertainty without being influenced by the biases.

Moreover, from research point of view, behavioral finance offers tons of new opportunities as well as challenges primarily due to the reason that it is comparatively a new concept. Individual biases can be researched using multiple variables to improve the analysis, and methods like Principal Component Analysis can also be used. Moreover, the present research has considered only four classifications for discriminant analysis. Further, future research can take more classifications like education of the investors, their occupation or a combination of two or more variables to rich the work on behavioral finance.