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A STUDY ON IMPACT OF BEHAVIORAL FINANCE IN INVESTMENT DECISIONS WITH SPECIAL REFERENCE TO EMPLOYEES IN NILGIRI COLLEGE OF ARTS AND SCIENCE, THALOOR.

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Abstract:

Behavioral financing is one of the novel concepts in the field of Commerce that studies how various psychological factors create an impact in decision making related to investments. A deep knowledge in Behavioral finance will help us to identify various psychological factors that affect an investor while making the investment decision. This research study specifically was conducted among employees in a Private college in Tamil Nadu and aimed at understanding various psychological factors that influenced their investment and financial decisions. The Primary objectives of the research was to find out the effects of behavioral financing and study its impact on their decision making. A questionnaire was prepared and circulated to collect data. The secondary objective was to get an insight into the major concepts under behavioral financing.

Keywords: Behavioral finance, investment decisions, anchoring, herd psychology.

INTRODUCTION:

When it comes to financing and investment decision making is a key aspect. But in this modern world with too much of portfolioopportunities and easy access to information the decision making process has become confusing rather than being easy. What products should acompany produce?, What should be the level of Working capital maintained?, Is capital budgeting needed, Which avenues should a company invest? All these decisions are easy on paper but quite difficult to take. During the decades before 2000 there were many theories related to finance and investment decisions which have been proven to be right, but when a normal man makes decisions he might not always take decisions on the basis of these traditional theories moreover many decisions turn out to be irrational. So after the year of 2000 various studies were conducted and slowly the concept of behavioral finance crept in. It was found that certain psychological and emotional aspects play a big role in investment decision making. But many financial experts and economists were against the concept of behavioral finance in the beginning.Later in the year 2002 the Nobel prize in Economics was awarded to the psychologist Daniel Kanheman for his work on the psychology of judgement and decision making and this was seen as a shift in focus towards the importance of psychology while learning financial decisions.

TRADITIONAL FINANCE VS BEHAVIORAL FINANCE:

TRADITIONAL FINANCE:

- It focus on the factor that people consider only risk and returns
- It assumes that normal people too can understand financial theories and process financial data accurately
- Assumes that investment decisions are taken on the basis of independent thinking and logics

BEHAVIORAL FINANCE:

- It implies people at times skip rules of thumb
- It assumes there is a big impact of emotions and herd instincts in financing and investment decision making
- It suggests even the risk return perception may get influences by psychological aspects.

BEHAVIORAL FINANCE:

Behavioral finance considered to be a branch of behavioral economics make use of psychology based theories to explain various financial anomalies. The major outcome of this field is to understand the reasons why people make few financial and investment decisions irrationally without being worried about the traditional financial theory based knowledge or rules of thumb. Behavioral finance suggests that the way information flows, the way and channel it get disseminated as well as the characteristics and behavior of the fellow market participants can create a big impact in investment and financial decision making.

SOME MAJOR TERMINOLOGIES/ CONCEPTS IN BEHAVIORAL FINANCE:

OVERCONFIDENCE:

At times people feel overconfident and they assume that whatever finance or investment decisions that they make turns out to be accurate and correct. It is true that human mind is designed in a way to collect data and process when required but at times during uncertainties the existing knowledge might not be enough to take investment decisions. In such cases an expert advice might be necessary but people just overconfidently think themselves as experts and might land in investment pitfalls.

INNUMERACY:

This is a concept in psychology which learns about people's difficulty with numbers. At times investors find difficulty in properly assessing the future probabilities numerically. They might give more importance to larger units of numbers and ignore the smaller ones, this is called as money illusion and at times it's the small numbers that create more impact and it goes unnoticed.

CONFIRMATION BIAS:

Human beings naturally has an instinct to search for supporting data that inturn supports their view. We never search for data that is contrary to our view. This is called as confirmation bias. For an example if an investor has some sort of view on a particular investment decisions he checks only the positive side of that investment and might skip the important other side as its contrary to his view point.

ANCHORING:

Human beings has this inbuilt instinct to stick on to their opinion. Even if later a data is received suggesting that their opinion was wrong, they are unwilling to correct their opinion. This concept is called anchoring. For an example if an investor Mr A has an opinion shares of XYZ company would grow drastically within 3 years, even if he receives a market study suggesting the company shares may fall within 1 year he might not change his opinion. He will stick on to his view make investment in the company and might loose his valuable money.

MENTAL ACCOUNTING:

Traditional finance theories guides people to rationally calculate their money and wealth. Mental accounting is a concept that describes the way through which people categorize, code and then evaluate and calculate the economic outcomes. But at times for a normal investor mental accounting can turn out to be extremely tricky.

SNAKE BITE/ SHADOW OF THE PAST:

Once an investor makes returns from particular investment on a large basis, he is ready to take risk in this investment once again considering the chance of bulk returns and its vice versa. When returns are less then an investor may back off and might not be willingto take a risk once again. But the future result of both the previous investment might turn out to be the reverse but an investor is not worried about that. This concept of making investment decisions on the basis of past returns or losses is called as the Snake bite effect.

PROSPECT THEORY:

It was a theory proposed by Kanheman and Tversky which bagged them the Nobel Prize in 2002. It provides an alternative explanation of how people frame a decision during the time of uncertainty. They suggest that utility does not depend on the level of wealth as per the standard traditional theories but utility is based on the changes in wealth from the current level.

INFORMATION CASCADE/ HERD INSTINCTS:

Human beings always feel comfortable to be in a group during risk or uncertainty. Even during investment decision making at time more than the individual instinct the effect and thought process of the peer group stands taller. During uncertainty people like to move with the herd instincts but it actually magnifies the psychological biases.

OBJECTIVES OF THE STUDY:

- The Primary objectives of the research was to find out the effects of behavioral financing and study its impact oninvestor's decision making.
- The secondary objective was to get an insight into the major concepts under behavioral financing.

RESEARCH DESIGN:
The type of **research design** used is descriptive research as theoretical aspects and characteristics description of theinvestors is explained.

DATA COLLECTION TOOLS:

Primary data: As a primary data collection tool questionnaire was used.
Secondary data: The secondary data was collected from internet, books, articles, journals etc.

SAMPLING PLAN:

- Population – Employees of Nilgiri College Thaloor, Tamil Nadu
- Sampling method – Convenience Sampling
- Sampling size – 70

DATA ANALYSIS AND INTERPRETATION:

HYPOTHESIS TESTING:

H0 – There is no influence of behavioural finance concepts on investment decisionsH1 - There is influence of behavioural finance concepts on investment decisions

Table showing percentage level of influence by the behavioural finance concepts during investment decision making process.

CONCEPTS OF BEHAVIORALFINANCE	PERCENTAGE LEVEL OF INFLUENCE
OVERCONFIDENCE	**67%**
INNUMERACY	**39%**
CONFIRMATION BIAS	**69%**
ANCHORING	**72%**
MENTAL ACCOUNTING	**70%**
SNAKE BITE/ SHADOW OF THE PAST	**81%**
INFORMATION CASCADE/ HERD INSTINCTS	**79%**
PROSPECT THEORY	**83%**

Source: Primary Data

So from the above table it can be concluded that the concepts and theories under behavioural finance holds true.H1 is accepted.

There is clear cut influence of behavioural financing in investment decision making.

CONCLUSION:

The objective of the study was to find out whether the behavioural finance concepts has an impact on the investment decisions of the investors. The research also aimed at throwing light on various behavioural finance concepts. The main focus was given on the concepts like herd instincts, anchoring, overconfidence, snake bite effect etc. The effects of the above concepts on the investment decisions among the employees of Nilgiri College of Arts and Science, Thaloor, Tamil Nadu was studied and analyzed after collecting the data using a questionnaire. The analysed data proved that the alternate hypothesis set was true that various behavioural

finance concept clearly has a big impact on the investment decisions of the investors and through the research it was also understood that the investors at times make irrational decisions and are ready to break traditional rules of thumb propagated by the old financial theories.

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