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Impact Of Loss Averion Biase And Investment Decision

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1. ABSTRACT

The power of personal psychology in the investments you choose A curious trait emerges: while it is believed that gains and losses should be equally potent, investors actually succumb to loss aversion. Income and profession matter to some extent while choosing one's investment strategy. Once in the investment market, investors are almost always a combination of a higher return seeker and risk aversion.

Key: -impact of loss Aversion and Investment decisions

2. INTRODUCTION

With progress in developing economies, we can expect that infrastructure and technology improve as the level of per capita and individual incomes rises. This has also led to a rise in savings, with many individuals resorting to low-risk fixed deposits. But people who are out for bigger reward are going to stock market and real estate. A feature of the stock market, one of the available investment options is definitely a high-risk part. This psychological element is of utmost importance in explaining the nature of investment behaviour exhibited by finance managers at stock exchange. And naturally, investors can begin to feel uncomfortable about losses that may be doing damage to their portfolios. This makes their investment choice a crucial one which is exclusively dependent upon available environmental detail and hence personal specialization in investment. When it comes to investment decisions, people show signs of risk aversion and loss aversion traits. It is important to evaluate the choices made when starting an investment. Sometimes, emotion Drive impulsive decision-making as well as increase loss aversion. One should first understand the stock market and the process of financial decision-making before investing. The impact of loss aversion on financial decision-making can be extremely significant.

The phenomenon may even cause what one might call investor paralysis. According to a study by Thaler and Johson in 1990, people who have lost money recently become extremely timid regarding further loss of money in the future. Such an attitude causes paralysis in investors and makes them unwilling or even incapacitated to make choices. One such classic case occurred during the financial meltdown of 2008. Loss aversion can thus be overcome with the help of mechanisms such as limiting the use of those options that are potentially irrelevant and providing alternative reference points that offer more favorable choices

Loss aversion might be one of the most dominant biases that cut across all industries, particularly the aviation sector. As noted by Kahneman and Tversky (1979), Prospect Theory defined loss aversion as the phenomenon whereby the pain of losses was felt more than the pleasure of equivalent gains. For instance, a person would find it hard to accept a loss of $100 compared to the elation found while gaining $100. Such a bias can be pretty influential in the decision-making process in an industry where investments run into millions of dollars or even billions, leading to avoidance of risks even when there are great return opportunities

3. LITERATURE REVIEW

Sudha V Ingalagi Mamata 2024:- Analyzed that Financial behavioral of Individual when they are investing their mental health and fear getting loss according to this research the timing of investment Is very important and taking right decision is also important when the people is forecasting losing money on their investment they are taking benefit loss aversion.

Arun kumar.Dr m babu scholar assistant professor 2024 :The psychology of the investor determines the behavioral of finance and how investors are investing in the stock market
depends on the psychology of the investor. They have a fear of losing their investment when they invest their money. The importance of their investments is according to the
information, the surrounding nature, and the information about their investments.

Jia zhom 2023 :- when a person get profit on their investment is a total different situation from when the getting loss on their investment in their different between two is called lossaversion biase.

Under the heading 'An examination of the effect of loss aversion and regret on investors' risk tolerance, age and gender', Muskaan Arora and Santha Kumari study showed that both the factors-age and gender-have a major influence on an investor's susceptibility to loss
aversion, for that matter, and these behavioral biases act as mediators.

Soosung Hwang and Steve E. Satchel (2010). The authors look at the American and British markets' asset allocation between them. Loss aversion does have an important role in
investors' behavior, however, significantly more so in the bull market instead of the bearmarket conditions.

Peter M. Baluka et al (2012).Investor behavior of Nairobi Securities Exchange was researched on and proved that the framing effect as well as the loss aversion influences their decision- making. The investigation had found that investors are more influenced by the framing of
information about potential loss than they are by those concerning the potential gain.

Loss aversion Baker, Ruback, and Wurgler (2007) have also noted that loss aversion is the basis of the "flight to safety," in which investors seek low-risk, low-yield vehicles such as government bonds when uncertainty arises because the investment in equities or whatever else may have the potential for better returns over a longer term

3. Problem of the statement

Investors often make their investment decisions based on emotive and psychological considerations rather than pure rational analysis. Loss aversion bias is a concept that comes from behavioral economics and complements the argument that people are risk-averse to losing
rather than gaining an equivalent amount of money. The biases can significantly skew the
investing decisions as investors may become risk-averse, ultimately resulting in poor performance of the portfolios and missed opportunities for greater gains.

There are dramatic theoretical discussions on loss aversion, but its practical implications on investment choices remain under-explored. Especially, little is known about how loss aversion affects decision-making in different market conditions

The weakness of their research is who the individual is behaviorally when the investment decision-making is taken. Sometimes, they make emotional investments, and the right time to invest is very important. The number of new investors is increasing in India, but they do not have proper knowledge about investment and lack understanding about financial
decisions. Hence, they make wrong decisions in terms of investments, which causes losses. Sometimes, people are the victims of loss aversion bias in investments. Loss aversion bias helps them reduce losses on investment.

5. Scope and significance of this study

Significance of study on loss aversion bias in investment decision Many researches
demonstrate that the aversion of losing plays a vital role in investment decisions. A study in 2024 by Pratiwi and Hariyanto concluded that loss aversion truly takes the main role in stock investment decisions among investors in Pontianak City (Pratiwi & Hariyanto, 2024). Related study Kamberi and Haxhi mustafa (2024) underlined the powerful influence of loss aversion over an individual's investment decisions, particularly concerning risk preference (Kamberi &Haxhi mustafa, 2024). (Pratiwi & Hariyanto,

Objective

1:- To understanding of individual behaviors on investment and their opinion regarding lossaversion bias

2:- the loss aversion bias is help for getting minimum loss on their investment

6. Research methodology 6.1.sources of data collection

The research utilized secondary data obtained from various sources such as the website ,publication and journals . the study employs a descriptive research design.

6.2. sample size .

The sample size of the hundred student of MBA department

6.3. statistical tools and techniques:-

Standard Deviation:

The standard deviation shows how spread out data is, from its value and is calculated by finding the root of the variance in a dataset. Stocks that fluctuate greatly will have a deviation compared to stable blue chip stocks with lower variations. This statistical metric is essential for gauging the degree of diversity or spread within a set of values. Represents how each data point deviates on average, from the datasets mean value. When the standard deviation is low, in value it means that the data points are grouped closely around the value which indicates a dataset with clustering characteristics; conversely when the standard deviation is high it implies that the data points are spread out across a broader range reflecting a dataset with more dispersion tendencies; whats interesting, about standard deviation is that it uses the same units as the data itself making it easier to interpret as a direct measure of variability. When looking at groups of people or things to measure variability within the groups values using statistics, like deviation in a population with a formula that involves calculating the root of the average of squared differences from the mean for each value, in the group compared to the overall mean value.

When dealing with samples rather than the entire population, the formula for calculating the standard deviation is slightly adjusted to account for the estimation of the population standard deviation with a sample. The adjusted formula is (\sigma = \sqrt{\frac{1}{n-1}\sum_{i=1}^{n}(x_i-\overline{x})^2}), where (n) is the number of values in the sample, (x_i) represents each value in the sample, and (\overline{x}) is the sample mean. This adjustment, dividing by (n-1) instead of (n), corrects for the bias in the estimation of the population standard deviation.

The standard deviation is a crucial measure in statistics because it provides insight into the spread of data points around the mean. It is particularly useful for understanding the variability of data in normal distributions, where data is symmetrically distributed with no skew. The standard deviation tells you how spread out from the center of the distribution your data is on average, making it a valuable tool for comparing the distributions of different samples and making inferences about the larger populations theycame from.

$$\sigma = \sqrt{\frac{\sum_{i=1}^{n} X_i - \bar{X}}{n-1}}$$

$\sigma = standard\ deviation$ $X_i = i\,th\ value$

$\bar{X}$ = mean of values

n= number of data value

$\sum_{i=1}^{n} X_i - \bar{X} =$

$\sqrt{}$= *Square root*

7:- Data Analysis and interpretation

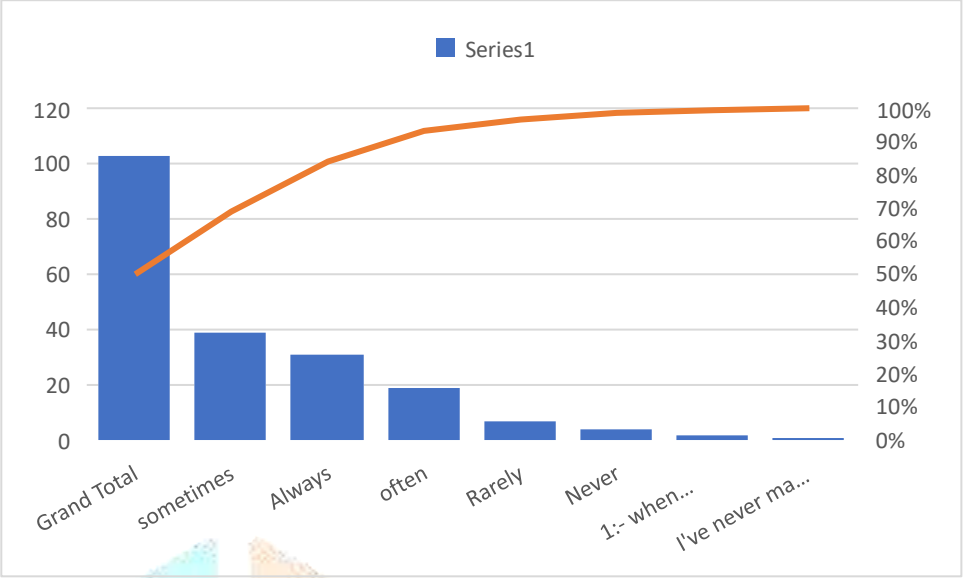


Chart 1:- the bar graph shows the making investment decision and about the worrying potential

Interpretation:-

The given elements signify counts and or frequencies for each of the categories. In order from left to right, the categories are the following labels: “Grand Total” – “sometimes” – “Always” – “often” – “Rarely” – “Never” and also a few other incompletely filled out ones (likely used for survey answers). The size of the bars represents how much each of the categories was chosen. The “Grand Total” bar is the tallest one, while for example, “Never”and several others which are not fully shown have much less values.

Line Graph (Right Axis): The orange line graph depicts the cumulative share of overall responses, which is relative to the total available responses. This allows to see the portion of each category that affects the total of the share. The curve levels out and then goes up towards 100%, which suggests that a large proportion of the total responses is found in the previous categories (for instance, ‘Grand Total’ and ‘sometimes’).

Chart 2:- line chart show the experience a loss on an investment and who they recovery

Interpretation:-

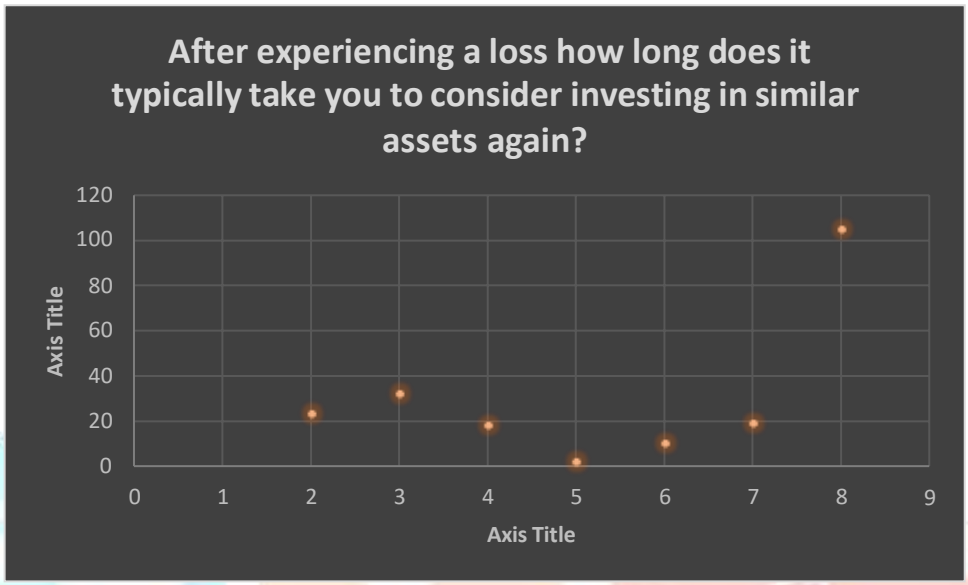
It seems that a proportion or amount of answers is displayed here, however, there is no label to make this point clear.

Data points: The graph contains a blue line illustrating the values, however, there appears to be a tendency for the results across categories to average out or remain around 100%. The

initial data point “I hold that stock” is recorded at 100% and the rest of the data points remain around that figure.

Problem: The graph as well as the axes have labels and titles that are either incomplete or ambiguous which makes it difficult to understand what is being represented. What is more, the reproduction of words in the legend (for instance “COUNTA of 2") implies that the charthas been poorly designed.

Chart 3:- the scatter plot shows experience a loss and how long does it typically take you to investing similar assets again



Interpretation:-

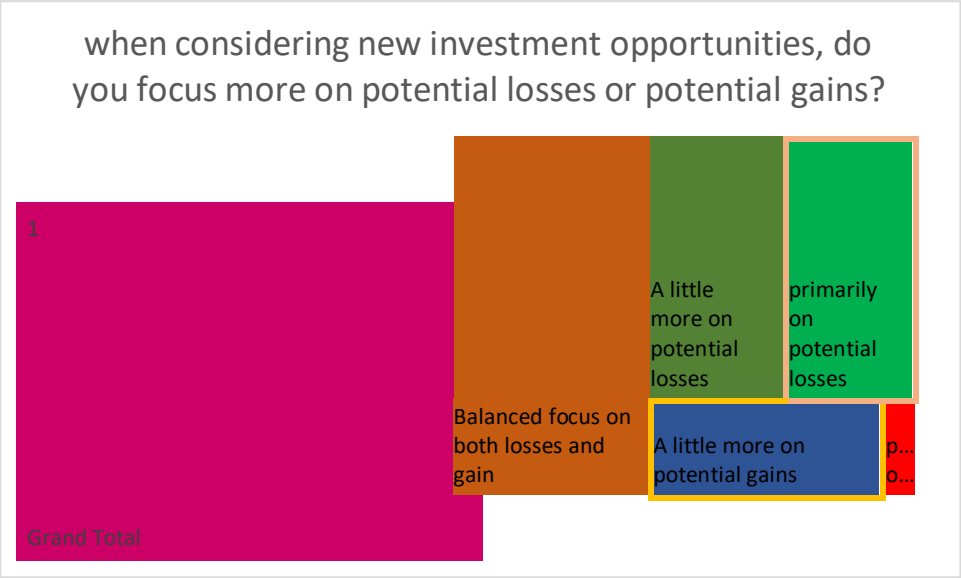
The graph appears to show survey data regarding how long it typically takes individuals to consider investing in similar assets again after experiencing a loss. However, the axes lack clear labels, making it challenging to interpret precisely. Here’s what can be inferred:

Horizontal Axis (X-axis): Likely represents the time it takes to reconsider investing, perhaps in units such as months or years. The numbers range from 0 to 9, but without labels, it’s
unclear whether this represents days, weeks, months, etc.

.Vertical Axis (Y-axis): May represent the number of people or percentage of respondents for each time interval. The values range from 0 to 12

Data Points: The scattered orange points suggest variation in responses, with some people taking a shorter time to reinvest, while others take much longer.

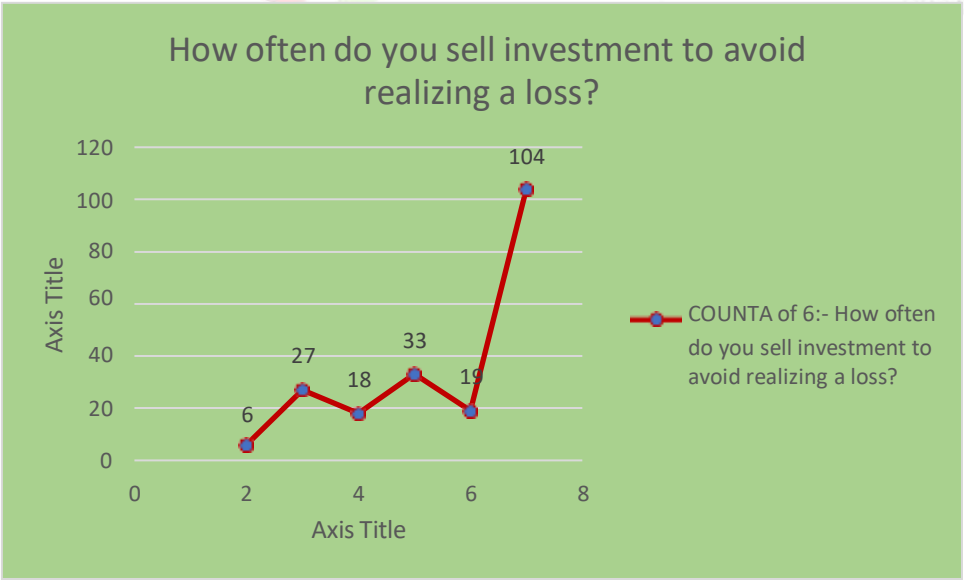
Chart 4:- in this graph shows how the new investment opportunities do you focus more onpotential gains



Interpretation :-

The data represented in this diagram is of the perception of respondents to the question: “While looking at the new avenues of investment, do you give more importance to rational losses or to rational gains?” in form of a tree-map plot. 1. Pink Segment (Largest): This means that most of the respondents tend to give a far greater weightage on potential losses while looking for investment opportunities. 2. Orange Segment (Medium): This connotates an ideal outlook in which respondents tend to look at both the possible losses and the possible gains in return, in equal measure. 3. Green Segment (Small): This part portrays the respondents who tend to be slightly more focused on the losses than on the gains. 4. Blue Segment (Small): Points out a smaller category that tends to be more oriented towards possible gains than possible losses, but to a very limited extent. 5. Red Segment (Smallest): This section denotes a very minute number of people who are only concerned with possible returns. By and large inferences drawn from the provided data indicate that the majority ofpeople are more concerned with the risks involved in making investments as compared to the returns.

Chart :- in this line graph how sell investment to avoid the realizing a loss



Interpretation :-

The given visual representation is a line graph regarding the frequency of the question: 'How often do you sell an investment to avoid realizing a loss?'

The X-Axis: It provides the versatility of responses to the answers to the questions, the duration that the respondent will hold his/her investments before loss aversion sets in. The exact labels for these ranges have, however, been left out but these seem to scale from zero to eight.

The Y-Axis: It runs perpendicular to the X axis and it illustrates the frequency of responses fell in each class. Data pointThe graph starts with the category of four responses where four responses only
meaning that some action has been taken on the very first category.

The responses rise and fall many times, however there is a persistent increase. It rises to 27, then falls to 18, then rises to 33 suggesting a variety of investments responses.A minimal growth is noticed then after a decrease to 19 responses is recorded.

At the end, however, the tendency goes remarkably up, 104 responses most of them addressing this category which means most of the respondents sell their investments regularly in order to avoid anylosses.

The illustration indicates that very few of the respondents sometimes sell their investments in order to avoid a crisis, however a bigger proportion of them do the selling at a high rate as shown by the peak of the scale at the other end.

Conclusion:-

Finally, the paper quite extensively touts the importance of loss aversion in influencing their
investment choices. It has been observed that investors often tend to avoid risks that involve loss rather than taking risks oriented towards gains which determines their conduct in the investment sector. This may result into irrational decisions such as a carry –over effect where one sells assets before the optimal time in order to avoid incurring losses or after losses have been taken, one may refuse to get back into the market- even if the circumstances have changed. The paper stresses that for the investment performance improvement, the loss aversion must be recognized and reduced, hence advocating for policies that are more long term and emphasize on risk management rather than deliberating on risk prevention only.

9:-Reference :-

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