Behavioural Finance and Retail Investors: A Study of Ahemadabad City

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There are certain factors that influence behaviour of investors a subject of curiosity for researchers. Literature talks about 'n' number of theories in behavioural finance, like anchoring decisions, innumeracy, mental accounting, overconfident decisions, prospect theory, loss aversion, biasness decisions, house money effect, trying to breakeven, snake bite affect, etc. So, the whole project is about to study the type of biasness that exists in the behaviour of the investors of Ahmadabad city in terms of investment decisions in addition to study further the level of biasness that exists in the behaviour of the investors of Ahmadabad city in terms of investment decisions. The present paper attempts to explore the area of behavioural finance and analyze its potential and understanding the investment practices in Ahmadabad city. Further, the paper concludes spelling out the degree of level and type of bias decisions. Convenience sampling was used to set questionnaire filled in.

Introduction:

Behavioural finance deals with the psychological aspects of financial decision-making. It discusses the influence of fear and greed on stock markets. It is also argued that that an individual is not as rational as traditional finance theory makes out it to be. Investor who is anxious to know how emotions and biases manipulate share prices-this field of study provides certain theories and explanations for it.

Review Of Literature:

In a study, Markowitz (1952) concluded that semi-standard divergence is a more suitable than the standard deviation for measuring risk. In another study, Kahneman and Tversky (1971, 1979) hypothesized that individuals are averse to loss and not to risk. They concluded that the pain of loss for the equivalent quantity is greater than the joy of gain.

Investor averse to loss attempts to lessen his normal loss due to incorrect investment decisions by applying mental accounting, like keeping aside unusual accounts to discipline spending or receipts, to alleviate self-control problems (Thaler, 1985; Tversky and Kahneman, 1981)

According to Shefrin and Statman (1993), regret is the sentiment of post decision guilt related to a decision that leads to a terrible result. And in order to eschew regret, investor moves his responsibility to a more careful agent. In case the principal-agent association reduces regret, the investors' usual value would be enhanced.

Lichtenstein, Fishchhoff, and Phillips (1977) found that individuals are usually overconfident and often overrate their acquaintance. Expert investors are found to be more positive about their predictions in areas of self-acclaimed proficiency, holding their prognostic aptitude stable. Ricciardi and Simon, (2000) viewed that psychological factors manipulate the financial decision making process of the individuals. One such psychological factor is knowledge which influences investors' decisions.

Ritter (2003) was of the view that the cognitive psychology comprises superciliousness when investors are convinced on their capabilities. In entrepreneurship framework, entrepreneurs are overconfident since they supposed partake in market trade do countenance risk and as a return, they make lofty profit. In finance, an instance exemplify in the study which is also little diversification, investors merely invest in one article rather than two or more.

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Due to this, they invest too large an amount in stock company.

Buehler and Ross (1994) have mentioned that people with stronger beliefs are also having stronger confidence on themselves. After conducting a research among American equity investors, they said, people with greater confidence that equity funds will certainly assist them in achieving their monetary objective, have shown more assurance on equity funds were persist to spend on them regardless of many stock market bubbles.

Thaler (1999) stated that most of the investors who put a high value on their investments, seek professional's or expert's advice before they make up their mind. He further stated that, in some cases, even the most experienced investors are also consulting others not just for the reason that they are investing large amount of money but for they place value on their investments.

Rao (2010). Similarly, Chan and Kogan (2002) concluded that normally friends are the main source to draw inspiration and motivation especially while undertaking any audacious performance. This is mainly correct in the situation of outlay decision. Whenever investors are making investments on such assets which are associated with risk, they tend to approach their friends to get mental support from them by getting their approval so that they can feel that they are doing nothing wrong.

Objectives and Methodology:

To study the type of biasness that exists in the behaviour of the investors of Ahmadabad city in terms of investment decisions and to study the level of biasness that exists in the behaviour of the investors of Ahmadabad city in terms of investment decisions.

Methodology: The data was collected through 200 investors of Ahmadabad City. Convenience sampling was used to fill questionnaire well as for primary data structured questionnaire was used.

Data Analysis & Findings:

Investors were asked about knowledge adequacy regarding Indian stock market 41% respondents were neutral and only 6% respondents strongly agreed for the same. According to the survey, 35% respondents had agreed that investors predict that the increase or decrease in prices of stocks in the future on the basis of recent stock movements. Further, 33% respondents were neutral about it. 38% of respondents were neutral towards the opinion that skills and knowledge of stock marketplace can facilitate them to do better than the market, and 33.5% respondents agreed towards the same. It was also found that, 43% of respondents agreed to fact that the past savings successes ascription to their own skills as well as knowledge and only 1.5% strongly disagree towards the same.

Data also revealed that 38.5% of the respondents agreed that they had a tendency to form judgments based on stereotype about the performance of the company on the basis of past earning growth rate. Further, mixed response was found with regard to the neutral and strongly agree opinion that was around 25.5% and 20.5% respectively. From the above analysis, 54% of the respondents gave neutral opinion that they were very quick in detecting the patterns in data. 22.5% of respondents disagreed towards the same. According to the survey, 37% of the respondents disagreed to the fact that they had spent more time for searching the reasons supporting their views than opposing and 30% of the respondents gave neutral response. It was also recorded that 48% said that they had overlooked the information that they found contrary to their opinion and 26% of the respondents agreed that they often overlooked the contrary information.

34.5% and 32% of the respondents said that they paid more attention to big numbers and less weightage

to small figures. According to the survey, 43.5% of the respondents had neutral tendency of forming rational judgments between real and nominal changes. Further, 25% respondents agreed and around 19.5% of the respondents disagreed. Majority of the respondents (39.5%) said that they had overall control and liable of their combinations of stock performance. However, 2.5% strongly disagreed towards the same. 36% of the respondents gave a neutral opinion and around 35.5% agreed that their future investment decisions are dependent on the combination of their luck and skills.

It was also found that 38% of the respondents had a neutral opinion if Nifty would drop by 5% then it would recover within a few days. Further, around 28% of the respondents agreed towards the same. According to the survey, 37.7% of the respondents gave a neutral opinion and around 34% of the respondents agreed that they heavily relied on their intuition and gut feeling which involved mental shortcuts thereby causing biasness. According to the survey, around 35.5% of the respondents analyzed each elements of their portfolio investment separately. Further, 29% gave a neutral opinion. 33.5% of the respondents gave a neutral opinion on their connections between different investment possibilities. Further, 27% agreed and 25% disagreed on the same.

It was also found that 44.5% of the respondents were more inclined to bet on the stock performance when they were aware about the probabilities of various outcomes than when they were ignorant towards the same. 35.5% agreed that they preferred to invest in home country stocks than foreign company stocks because of availability of information. However, 27.5% gave a neutral opinion. 38.5% of the respondents agreed that their past investment successes influenced their stock preferences whereas 28.5% gave a neutral opinion of the same. According to the survey, 32.5% agreed that they became risk averse after a prior loss. Apart from this, 26.5% respondents gave a neutral opinion.

For the current study, 53% respondents were male and 47% respondents were females, 38% respondents were falling under age group of below 25 years and 25% respondents were falling under age group of 26-35 years. Ocupationwise, 35% respondents were doing business and 27% respondents were in jobs. Further, 45% respondents were graduates or above and only 7% respondents were under graduates. Also, 44% respondents were having income less than 5 lacs while 5% people who had income above 10 lacs.

Hypotheses Testing:

Following hypothesis were tested to attain the objectives of the study.

H_{01}:The knowledge that I have regarding Indian stock market is not sufficient.

One Sample:

Table 1.1: The knowledge that Investors have regarding Indian stock market is sufficient.

Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
The knowledge that I have regarding Indian stock market is sufficient.	40.047	199	.000	2.790	2.65	2.93

In one sample t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. Ultimately,it shows that the knowledge that Investors have regarding Indian stock market is sufficient.

H_{02}: Investors do not predict the increase or decrease in prices of stocks in the future on the basis of recent stock movements

Table 1.2: Investors predict that the increase or decrease in prices of stocks in the future on the basis of recent stock movements.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investors predict the increase or decrease in prices of stocks in the future on the basis of recent stock movements.	44.256	199	.000	3.165	3.02	3.31

According to the analysis of t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that Investors predict the increase or decrease in prices of stocks in the future on the basis of recent stock movements.

H_{03}: Investors do not think that their skills as well as knowledge of marketplace can help them to do better than the market.

Table 1.3: Investors think that their skills as well as knowledge of marketplace can help them to do better than the market.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investors think that their skills as well as knowledge of marketplace can help them to do better than the market.	46.322	199	.000	3.220	3.08	3.36

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates Investors think that their skills as well as knowledge of marketplace can help them to do better than the market.

H_{04}: Investors precedent investment successes are not accredited to their own skills as well as knowledge.

Table 1.4: Investors precedent investment successes are accredited to their own skills as well as knowledge.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investors precedent investment successes are accredited to their own skills as well as knowledge.	55.682	199	.000	3.430	3.31	3.55

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. Ultimately, it shows that Investors precedent investment successes are accredited to their own skills as well as knowledge.

H_{05}: Investors do not have the tendency to form judgment based on stereotype about the performance of a company on the basis of past earning growth rate.

Table 1.5: Investors have the tendency to form judgment based on stereotype about the performance of a company on the basis of past earning growth rate.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I have tendency to form judgment based on stereotype about the performance of a company on the basis of past earning growth rate.	49.051	199	.000	3.610	3.46	3.76

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that Investors have the tendency to form judgment based on stereotype about the performance of a company on the basis of past earning growth rate.

H_{06}: Investors are not very quick in detecting pattern in data in available of information that are in fact random.

Table 1.6: Investors are very quick in detecting pattern in data in available of information that are in fact random.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I am very quick in detecting pattern in data in available of information that are in fact random.	46.383	199	.000	2.855	2.73	2.98

According to the analysis of t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that Investors are very quick in detecting pattern in data in available of information that are in fact random.

H_{07}: Investors are not spending more time searching for reason supporting their views then opposing

Table 1.7: Investors are spending more time searching for reason supporting their views then opposing

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I spend more time searching for reasons supporting my views then opposing.	41.381	199	.000	2.895	2.76	3.03

In above one sample t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. Ultimately, it shows that Investors are spending more time searching for reason supporting their views than opposing.

H_{08}: Investors are overlooking to the information that seems contrary to their opinion.

Table 1.8: Investors are not overlooking to the information that seems contrary to their opinion.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I overlook to the information that seems contrary to my opinion.	47.399	199	.000	3.105	2.98	3.23

According to the analysis of t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that Investors are overlooking the information that seems contrary to their opinion.

H_{09}: Investors do not usually pay more attention to big numbers and less weight to small figures.

Table 1.9: Investors usually pay more attention to big numbers and less weight to small figures.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I usually pay more attention to big numbers and less weight to small figures.	42.162	199	.000	3.070	2.93	3.21

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that Investors usually pay more attention to big numbers and less weight to small figures.

H_{010}: Investors do not have tendency of being unable to form rational judgment between real and nominal changes.

Table 1.10 - Investors have tendency of being unable to form rational judgment between real and nominal changes.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I have tendency of being unable to form rational judgement between real and nominal changes.	45.619	199	.000	3.095	2.96	3.23

According to the analysis, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that Investors have tendency of being unable to form rational judgment between real and nominal changes.

H_{011}: Investor does not have overall control as well as liable for their performance of portfolio

Table 1.11: Investor has overall control as well as liable for their performance of portfolio.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investor has overall control as well as liable for their performance of portfolio	51.264	199	.000	3.570	3.43	3.71

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that Investors have overall control as well as liable for their performance of portfolio.

H_{012}: Investors future investment decisions are not dependent on the combination of their luck and skills.

Table 1.12: Investors future investment decisions dependent on the combination of their luck and skills.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
My future investment decisions are dependent on the combination of my luck and skills.	48.070	199	.000	3.385	3.25	3.52

According to the analysis of t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that future investment decisions are dependent on the combination of their luck and skills.

H_{013}: If Nifty downs by 5%, then it would not get better within few days.

Table 1.13: If Nifty downs by 5%, then it would get better within few days.

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
If Nifty downs by 5%, then it would get better within few days.	39.782	199	.000	3.070	2.92	3.22

In above one sample t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. Ultimately, it shows that if Nifty goes down by 5%, then it would get better within few days.

H_{014}: Investors are usually not relying heavily on their intuition and gut feeling which involved mental shortcuts thereby causing biasness.

Table 1.14: Investors are usually relying heavily on their intuition and gut feeling which involved mental shortcuts thereby causing biasness.

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I usually rely heavily on my intuition and gut feeling which involved mental shortcuts thereby causing biasness.	46.350	199	.000	3.240	3.10	3.38

According to the analysis of t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that Investors are usually relying heavily on their intuition and gut feeling which involved mental shortcuts thereby causing biasness.

H_{015}: Investors are inclined to analyze each component of their investment of stocks separately

Table 1.15: Investors inclined to analyze each component of their investment of stocks separately.

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investors inclined to analyze each component of their investment of stocks separately.	43.069	199	.000	3.380	3.23	3.53

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that Investors are inclined to analyze each component of their investment of stocks separately.

H_{016}: Investors do not ignore the connection between different investment possibilities.

Table 1.16: Investors ignore the connection between different investment possibilities.

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I ignore the connection between different investment possibilities.	40.258	199	.000	3.100	2.95	3.25

According to the analysis of t- test table, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that Investors ignore the connection between different investment possibilities.

H_{017}: Investors are not more inclined to bet on the stock performance when they are aware about the probabilities of various outcomes than when they ignorant of the same.

Table 1.17: Investors are more inclined to bet on the stock performance when they are aware about the probabilities of various outcomes than when they ignorant of the same.

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I am more inclined to bet on the stock performance when I am aware about the probabilities of various outcomes than when I am ignorant of the same.	49.224	199	.000	3.250	3.12	3.38

According to the survey, table value is higher than calculated value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that Investors are more inclined towards bet on the stock performance when they are aware about the probabilities of various outcomes than when they are ignorant of the same.

H_{018}: Investors do not prefer to invest in home country than foreign company stocks because of availability of information

Table 1.18: Investors prefer to invest in home country than foreign company stocks because of availability of information.

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
I prefer to invest in home country than foreign company stocks because of availability of information.	44.271	199	.000	3.480	3.32	3.64

According to the analysis of t- test table, table value is higher than calculated value (0.05> 0.000). Hence, null hypothesis rejected. So, it indicates that Investors prefer to invest in home country than foreign company stocks because of availability of information.

H_{019}: Investors precedent Investment successes do not make them spend more in stock.

Table 1.19: Investors precedent Investment successes create them spend more in stock.

	Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Investors precedent Investment successes make them spend more in stock.	46.613	199	.000	3.445	3.30	3.59

According to the analysis of t- test table, table value is higher than calculated, value (0.05>0.000). Hence, null hypothesis rejected. So, it shows that Investors precedent Investment successes make them spend more in stock.

H_{020}: Once a precedent loss, investor does not turn to be risk averse

Table 1.20: Once a precedent loss, investor turns to be risk averse

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Once a precedent loss, investor turns to be risk averse	42.757	199	.000	3.545	3.38	3.71

According to the survey, in one sample t-test table, table value is higher than table value (0.05>0.000). Hence, null hypothesis rejected. So, it indicates that once a precedent loss, investor turns to be risk averse

H_{021}: I think that my skills as well as knowledge of marketplace can help me to do better than the market.

ANOVA:

Table 2.1: I think that my skills as well as knowledge of marketplace can help me to do better than the market.

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.983	3	.661	.681	.565
Within Groups	190.337	196	.971		
Total	192.320	199			

Comparing the calculated value with the table value researcher found that the calculated value is higher than table value. (0.565>0.05) Hence, null hypothesis is accepted. There is not strong relationship between educational qualification and investors' performance in the market. Educational qualification is not having direct impact on overconfidence of the respondent.

H_{022}: My precedent investment successes are accredited to my own skills as well as understanding

Table 2.2: My precedent investment successes are accredited my own skills as well as understanding.

Sum of Squares	Df	Mean Square	F	Sig.	
Between Groups	.830	3	.277	.361	.781
Within Groups	150.190	196	.766		
Total	151.020	199			

Comparing the calculated value with the table value researcher found that calculated value is higher than table value. (0.781>0.05) So, null hypothesis accepted. So, strong relationship is not observed between educational qualification and investor precedent investments successes are accredited by own skills as well as understanding.

H_{022}: I am very quick in detecting pattern in data in available of information that are in fact random

Table 2.3: I am very quick in detecting pattern in data in available of information that are in fact random.

Sum of Squares	Df	Mean Square	F	Sig.	
Between Groups	1.849	4	.462	.605	.659
Within Groups	148.946	195	.764		
Total	150.795	199			

Comparing the calculated value with the table value researcher found that calculated value is higher than table value. (0.659>0.05) so, null hypothesis accepted.   There is not significant relationship between educational qualification and Investors time taken for determining the pattern from data.

Conclusion:

Behavioural Finance deals with the psychology of investor. It is the science of behaviour of individuals and groups. For the primary analysis, a survey of 200 Investors in Ahemadabad city was conducted in which objective was to study the type and level of biasness that exists in the behaviour of the investors of Ahemadabad city in terms of investment decisions. From the whole analysis, it was found that at what level investors take bias decisions and apart from this what type of investors are falling from various theories: like investors are taking overconfident decisions, narrow framing decisions, bias decisions, anchoring decisions etc.

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