

Impact of Behavioral Biases on Indian Investors: Case Analysis of a Mutual Fund Investment Company

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Abstract : In this study, we have studied and analysed the transaction data of investors of a mutual fund investment company based in India. Based on the data available, we have identified the top four biases that affect the investors of the emerging market economies through regression analysis and three uniquely defined ratios. We found that the four most prominent biases that affected the investment making decisions in India are- Chauffer Knowledge, investors tend to make ambitious decisions about sectors they know little about; Bandwagon effect - the response of the market indices to macroeconomic events are more profound and seem to last longer compared to western markets; base-rate neglect - judgement about stocks are too much based on the most recent development ignoring the long-term fundamentals of the stock; availability bias - lack of proper communication channels of market information lead people to be too reliant on limited information they already have. After segregating the investors into six groups, the results have further been studied to identify a correlation among the demographics, gender and unique cultural identity of the derived groups and the corresponding prevalent biases. On the basis of the results obtained from the derived groups, our study recommends six methods, specific to each group, to educate the investors about the prevalent biases and their role in investment decision making.

Keywords : Bandwagon effect, behavioural biases, Chauffeur knowledge, demographics, investor literacy, mutual funds

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