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Exploring Behavioural Biases among Indian Investors: A Qualitative Inquiry

Authors : Satish Kumar, Nisha Goyal

Abstract : In the stock market, individual investors exhibit different kinds of behaviour. Traditional finance is built on the notion of 'homo economics', which states that humans always make perfectly rational choices to maximize their wealth and minimize risk. That is, traditional finance has concern for how investors should behave rather than how actual investors are behaving. Behavioural finance provides the explanation for this phenomenon. Although finance has been studied for thousands of years, behavioural finance is an emerging field that combines the behavioural or psychological aspects with conventional economic and financial theories to provide explanations on how emotions and cognitive factors influence investors' behaviours. These emotions and cognitive factors are known as behavioural biases. Because of these biases, investors make irrational investment decisions. Besides, the emotional and cognitive factors, the social influence of media as well as friends, relatives and colleagues also affect investment decisions. Psychological factors influence individual investors' investment decision making, but few studies have used qualitative methods to understand these factors. The aim of this study is to explore the behavioural factors or biases that affect individuals' investment decision making. For the purpose of this exploratory study, an in-depth interview method was used because it provides much more exhaustive information and a relaxed atmosphere in which people feel more comfortable to provide information. Twenty investment advisors having a minimum 5 years' experience in securities firms were interviewed. In this study, thematic content analysis was used to analyse interview transcripts. Thematic content analysis process involves analysis of transcripts, coding and identification of themes from data. Based on the analysis we categorized the statements of advisors into various themes. Past market returns and volatility; preference for safe returns; tendency to believe they are better than others; tendency to divide their money into different accounts/assets; tendency to hold on to loss-making assets; preference to invest in familiar securities; tendency to believe that past events were predictable; tendency to rely on the reference point; tendency to rely on other sources of information; tendency to have regret for making past decisions; tendency to have more sensitivity towards losses than gains; tendency to rely on own skills; tendency to buy rising stocks with the expectation that this rise will continue etc. are some of the major concerns showed by experts about investors. The findings of the study revealed 13 biases such as overconfidence bias, disposition effect, familiarity bias, framing effect, anchoring bias, availability bias, self-attribution bias, representativeness, mental accounting, hindsight bias, regret aversion, loss aversion and herding bias/media biases present in Indian investors. These biases have a negative connotation because they produce a distortion in the calculation of an outcome. These biases are classified under three categories such as cognitive errors, emotional biases and social interaction. The findings of this study may assist both financial service providers and researchers to understand the various psychological biases of individual investors in investment decision making. Additionally, individual investors will also be aware of the behavioural biases that will aid them to make sensible and efficient investment decisions.

Keywords : financial advisors, individual investors, investment decisions, psychological biases, qualitative thematic content analysis
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