Impact of Behavioral Biases in Investment Decision and Strategies

Neha Verma

Research Scholar, Vikram University, Kothi Road,
Ujjain, Madhya Pradesh

E-mail: nehaverma54@yahoo.co.in

Abstract

In present day behavioral finances play the important role for the investment decision making. In present day the investor's take the variety of the decision. There are various option or choice available for the investors in the market while taking investment decisions. Decision making means final selection n of the best alternative which are available for the investors in the market some investment decision are easy and other investment decision are the complex and require the multiple approach. This study is evaluate the and identify the behavioral biases involve in the investors decision making while taking investment decision and also identify the impact of the behavioral biases involve in the decision making. Behavioral biases generally variation in the judgments that occur in the particular situation which lead to irrational decision inaccurate decision. These studies focus the some of the behavioral biases which affect the investment decision for the investors.

Key words: Confirmation bias, Disposition effect, Familiarity bias, Loss aversion, Over confident biases, Representativeness.

Access this article online	
Quick Response Code:	**Website:** www.innovativepublication.com
	DOI: 10.5958/2394-2770.2016.00004.1

Introduction

The behavioral finance is the field of the finance and the behavioral finance based on the psychological theory it is assume that the information structure and characteristic of market participants is influence the inventor's decision and it also influences the market outcomes. It is also examine that why investors deviate from the rational decision .This paper will evaluate the existence and extent of a number of psychological phenomenon's it will analyze: Confirmation bias, Overconfident biases, Representativeness, Disposition effect, Familiarity bias.

Investors are influences by the behavioral biases so it is prevent investors to take normal decision and the study of the behavioral finance focus on the investor take right investment decision.

Review of Literature

"Saif Ullah, Jhandir, Muhammad, Ather ElahI 2014" Conclude that behavioral biases play important role in decision making in Karachi stock exchange. A questionnaire is design and used to collect response using the convenience sampling technique from 348 investors of Karachi stock Exchange. The result show that Disposition effect, overconfident biases and herding have significant positive impact on the investment decision making. The result show that behavioral investors type no moderating contribution in relationship between disposition effect and investment decision making and negative moderating contribution in relationship between herding and investment decision making and positive moderating contribution in relationship between overconfidence and investment decision making in Karachi stock exchange.

"Inga Chira, Michael Adams, Barry Thornton, 2008" conclude that this study is based on the detect a some biases among and between the business college students. A questionnaire is design and used to collect response from undergraduate and graduate student for assess the behavioral biases when they take financial and non-financial decision making. And conclude that students are risk averse and they want to investment in risk free stock but some of the students did not show familiarity heuristic and some student engage in conformation biases and some of the student did not show the illusion of control and some of the students bounded rationally when they take the investment decision.

"Zipporah Nyaboke, Onsomu 2014" conclude that this study is based on determine the effect of availability bias, and representative biases and confirmation biases and disposition effect and overconfident biases in Nairobi security exchange and the result show that investors at NSE are affected by availability bias, representative bias and confirmation bias and disposition effect. And an overconfident bias has no significant effect in investors of NSE. There was no significant correlation between Confirmation bias, Availability bias, Representativeness bias, Disposition effect and Overconfidence bias and gender.

"Amar Kumar Chaudhary 2013" conclude that the cognitive errors influence investors in investment decision making and there are various cause lead to various biases like overconfidence hard behavior and under reaction and loss aversion but behavioral finance provide the strategies and framework for the investors to take right investment decision.

"Dr. Taqqadus Bashir, Umaira Rasheed, Sundas Raftar, Saliha Fatima, Maimona Maqsood **conclude that**" This study focus influence the behavioral biases in employee and student and questionnaire was design and distribute sample of 100 which 45% were student and 55% were employees and analyze the relationship of overconfident biases with illusion of control biases, family biases, loss aversion and confirmation biases and result show that no significant difference between male and female regarding overconfident biases and most of the student and employee were subject to illusions of control biases and only small percentage employees and student were overconfident when we assess their driving ability.

Types of Biases

Confirmation bias: Confirmation biases that explain the people seek out the only information which is support his her belief about an investment and avoid or ignore to see information that present differences ideas. The confirmation biases crate problem for the investors and which focus only one sided view of the situation and take poor investment decision while investors take investment decision.

Overconfident biases: Overconfident biases occurs when the investors or the people are more confident while making investment decision and also more confident in their ability and skills and prediction for the success which result excessive trading which lead to poor investment decision and it is also important biases while making investment decision.

Representatives: Representative biases investors identify the investment as a good or bad on the basis of recent performance which lead to poor investment decision. Investors are invest the assets which prices has risen and expect the price risen in continue and ignore the assets which prices are below. Investors are take investment decision without further analysis of the assets.

Familiarity biases: Familiarity biases occurs when investors are too concentrated to investment in their own countries and investors want to invest those security which can easily understand and well known and to overcome these biases investors invest the internationally.

Loss aversion: In prospect theory, loss aversion refers to the tendency for people to strongly prefer avoiding losses than acquiring gains. Some studies suggest that losses are as much as twice as psychologically powerful as gains.

Disposition effect: Disposition effect refer to selling the assets which value appreciate and which is purchase to early and early and holding on to losing stocks too long.

Strategies

In present day behavioral finance is becoming an important part of decision-making process because it heavily influences the investor's decision making. Behavioral finance will help to investors to select better investment option and can avoid the mistake in near future. Investors can be improve performance by the identify biases and error of judgment. The main objective of the behavioral finance how can we minimize or avoid the biases and how can take right investment decision.

Investment in stock: The investors should focus the specific investments strategy while making investment in stock and decide the specific criteria for making best investment decision. Investors know the objective behind the investment in stock time horizon for the investment and risk and return and expected return in investment and stock has the under and over performed after one year.

Investment in mutual fund: The investor should know the various mutual fund scheme and the risk and return involved in the mutual fund and the time horizon and expected return in mutual fund schemes and invest in low operating expenses and keep mind the historical record in mutual fund schemes. Behavioral factors can help investors to avoid mistakes.

Conclusion

The investors display many behavioral biases that effect on investment decision making while making investment decision. There are some common biases identify in these study and also develop the strategies to overcome these biases. People need to identify the biases and develop the strategies to overcome these biases and people require proper allocations strategies and identify the risk and return in investment decision.

Conflict of Interest: None

Source of Support: Nil

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