COMPREHENSIVE INDIAN AND INTERNATIONAL REVIEW OF LITERATURE ON BEHAVIOURAL FINANCE

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ABSTRACT

The study is divided into two categories; research contributed by Indian researchers and research contributed by international researchers have been studies and analysed. It has been observed that nine predominant features such as Herding, Regret, Representativeness, Overconfidence, Anchoring and Ability, Gambler's Fallacy, Hindsight, Cognitive Conflict, Mental Accounting are prevailing biases in behavioural finance. Gender, age, marital status, annual income, and work experience are all important demographic aspects to consider when analysing the impact on investment decision making. The study of traditional finance and neo classical economics are being discussed from several decades. John Stuart Mill introduced the thought of rational economics man or also known as homo economicus in 1844. He defined an individual as a homo economicus who tries to optimise financial benefits in the given constrained. He described basic three assumptions for the thought of cogent economic man or homo economicus.

Keywords: *Behavioural Finance, Investment Decision, Economicus, Cognitive Conflict, Mental Accounting*

I. Introduction

Human psychological behaviour plays an importance role in investment decision making process in capital market. It is imperative to study the factors affecting investment decision in today's scenario. The research and study of behaviour finance proved that behavioural biases are relevant at the time of investment decision making process. In this research paper; attempt has been made to review relevant existing literature and it was concluded that there are number of biases which are present among investors that impacts their investment decision.

The research has been classified into two categories: research produced by Indian researchers and research contributed by international researchers. It has been discovered that nine prominent biases in behavioural finance include Herding, Regret, Representativeness, Overconfidence, Anchoring and Ability, Gambler's Fallacy, Hindsight, Cognitive Conflict, and Mental Accounting. Gender, age, marital status, annual income, and work experience are all important demographic aspects to consider when analysing the impact on investment decision making.

1. Perfect Rationality
2. Possess extreme self-interest
3. Has complete information of the market conditions

Eventually these assumptions became the base of financial economics (M. Pampian, 2011)

Investor follows rational and logical attitude to take realistic financial decisions (Nozick, 1993)

Efficient Market Hypothesis (EMH) is a theory from traditional finance which states that a market where large number of investors are trading securities and wherever the significant info is easily accessible to entirely the participants. The EMH assumption is that the security market is efficient in processing all the available information.

The theory of moral sentiment was introduced in 1759 by Adam Smith. He developed theory of invisible hands where he explained the role of sentiment in decision making process.

Cognitive biases of investors have high influence on stock market. There are several psychological factors which challenges rational thinking.

During 1960s and 1970s psychologist Daniel Lahneman and Amos Tversky studies new concept in the field of finance that is behavioural finance. The study of economics, finance, and psychology is the emerging area of behavioural finance.

Definitions of behavioural Finance

Selected of the important explanations of behavioural finance are deliberated here:

1. Linter (1998) defines BF as 'the investigation of how humans understand and act on information in order to make sound investment decisions'.
2. De Bondt (2004) defines BF as 'a theory that investigates financial challenges using principles derived from cognitive psychology'.
3. Weber (1999) observes that, 'Individual behaviour and market phenomena are strongly intertwined in behavioural finance, which employs information from both the psychology and financial fields.'
4. Fromlet (2001) defines BF as 'It is a blend of the psychology field and finance theory that closely combines individual behaviour and market events and employs knowledge."
5. Sewell (2001) state that behavioural finance has been defined as "the study of the influence of psychology on the behaviour of financial practitioners and the resultant effect on markets."'

II Objectives Of The Study

1. To understand the concept of behavioural finance
2. To analyse the assessment of the prose on behavioural finance within India and foreign countries
3. Find out the research gap

Scope of the study

This study includes an introduction to behavioural finance as well as important concepts. The study focuses on the different behavioural Finance biases and analyse the review of the literature within India and other countries.

III Research Methodology

The systematic Literature Review method was used to analyse various research papers. The systematic literature review on behavioural finance allows to map and access existing literature. The second step is to conduct a thorough and unbiased literature search, selecting terms that best fit with the study's objectives. Literature has been classified in two parts; first is contribution to the body of knowledge from Indian researchers and second is contribution from international researchers. The study also focuses on difference behavioural biases which impacts the investment decision process.

Limitation of the study

1. Research is connected to conceptual and theoretical hence there is no experiential study conducted for this research paper.
2. Discussed few literature reviews and behavioural finance biases.

IV Review Of Literature

A review of the literature entrusts a research study carried out by Indian and international researchers related to area of study that is Behavioural Finance. The objective of the review is to determine the outcomes of several research commenced in the field of behavioural finance and to find out the current research gap. Most of the researchers have undertaken study on features affecting individual investor's investment decision from different perspectives. The study is categorized in to two features, first is the assessment of studies by Indian researchers and second is a assessment of studies by international researchers.

Indian Studies

(Rajarajan, 2002) identified the connotation amid the demographic factors and the risk bearing capacity of individual investor on 405 respondents from Chennai city using research tools such as Chi-square test and other analysis. The study found that there is a positive association between risk bearing capacity& demographic factors.

(Rajarajan, 2003) studied the determinant choice of portfolio individual investor. The analysis done using multiple regression analysis. The study analysed that that there is a positive relation among risk bearing capacity, rate of return on investment and loss avoidance.

(Kiran, 2004) analysed the group of investors and categorised them in different segment based on various demographic factors and psychological characteristics of the investors. The study has been conducted using Multinomial logistic regression and other correspondent analysis. The study is based on 96 respondents.

(Ranganathan, 2006) analysed the financial behaviour and general awareness of investor regarding mutual fund. The study is based on 100 respondents from Mumbai using multinomial logistic regression& other correspondent analysis. The conclusion of the study is that factors related to quality of fund and portfolio, quality of fund managing company and customer services to investors affects the investment decision process.

(Jain, 2008) identified that the performance of the investors between the several kinds of financial assets classes and the problem related to capital market. The study has been considered 1463 individual investor respondents. The conclusion of the study is that the investors give preference to invest in stock market as than mutual funds due to higher possibility of return on investment in stock market.

(Parashar, 2010) examined the outcome of behaviour characters on special of investment. The study is conducted on 100 investors respondent using cluster Kruskal Wallies test and other correspondent analysis. The study concluded that personality traits and demographic characteristics affects the investment behaviour.

(NCAER, 2011) analysed the behaviour of individual investors in dealing with capital market trading. The study is conducted on 38,000 households in different 44 conurbations and 40 towns. The study identified that the risk repugnance factor is extremely high in Indian households.

(Subash, 2012) investigated the influence of particular behavioural finance prejudices on investment choice procedure of retails depositors in Indian capital market by main data of 92 individual investors respondents. The study identified that the hindsight biases, fastening and gambler fallacy are the dominant biases among younger investors than experienced investors.

(Rushdi, 2014) described the effect of numerous psychographic biases on investment pattern behaviour of salaried pros in India. The study is conducted on 1627 respondent's primary data. The study identified that demographic factors such as gender plays important role in all aspect of investment behaviour.

(Maheshwari, 2014) identified the association between age and financial planning using Chi-Square and ANOVA test. The study shows that there is statistically positive association between the process of financial planning and age of investor. The results of ANOVA test analysed that there is difference in perspective regarding process of financial planning by different age group segment.

(Sasirekha, 2015) analysed the factors of investment behaviour of retails investors who are working professionals in Information Technology in Coimbatore city. The study is conducted on 482 respondents which identified that the investment strategy is largely depend on the socio-economic characteristics. The study analysed that the behaviour biases plays major role in the process of investment decision making process.

(Shinde C.M., 2015) examined the influence of demographic profile on depositor's scale of risk lenience concerning choice of investment using Mann Whiteny 'U' test and other correspondent test on 670 investors from Pune city. The study determined that the demographic profile of individual depositors such as gender, level of education, income segment, age the investor's scale of risk tolerance.

(Kandpal V., 2018) examined the individual investors of the Dehradun city on 358 respondents. The study concluded that the Investment decision in India is taken into consideration by perception, by word of mouth, Investment decision in India is not taking seriously, and rather it is done quickly and no proper detail study take place. Behavioural

Finance is considered to be the important element in the investment decision making in Indian Capital Market.

International Studies

(Thaler, 1985) states that several depositors face delinquent to determine investment choice making under uncertain circumstances because traditionally investor's decisions are based on rule of probability. But in reality, most of the people overreact to unexpected news and it impacts the buying and selling decisions of the stocks. The sentiments play important role in decision making process.

(Warren, 1990) identified various segment depend on the lifestyle and demographic factors of the investors. The study is based on 152 respondents. The study showed the segmentation based on their investment behaviour. The investor behaviour is classified in to two categories, active traders and inactive investors as well as heavy transaction volume and light transaction volume depositors.

(Massa, 2002) identified two different parts of investment behaviour, first is risk captivating characteristic which includes loss aversion, and mental accounting and second is stock choosing with information-based knowledge and pure fundamental knowledge. The researcher examined the influence of behavioural biases on risk appetite and stock selection pattern, the study attentive on behaviour with regards to long term holdings of investors with a yearly prospect. The study shows that there was an influence of losses and gains on investor risk taking ability but not on mental accounting.

(Thaler B. a., 2003) examined behavioural finance biases, scenarios of market competence, investor psychographic factors, limitations to level of arbitrage, and behaviour & beliefs of individual investors in detail. The study focuses on application of behavioural finance to various segments like individual investors and capital market and corporate finance that is fund manager's behaviour.

(Wood, 2004) described the characteristics of various investors into multiple segment based on their investment pattern and attitude as well as behaviour using main data of 90 respondents. The study identified that the retails investors can be classified into level of tolerance, confidence level of traders, loss aversion traders and traders who are very conservative and looking for long-term investment.

(Pompian, 2006) identified that biases are mainly classified into two types, Emotional biases and cognitive biases. The study identified seven different emotional biases, those are Status Quo Bias, Regret Aversion Bias, Loss Aversion Bias, Confirmation Bias, Optimism Bias, Self-control bias and Endowment Bias. Cognitive biases are categorised in thirteen different biases, Availability bias, framing bias, Self-Attribution bias, Overconfident bias, Cognitive Dissonance bias, Hindsight Bias, Mental Accounting, Anchoring and Adjustment bias, Ambiguity bias, Representative Bias, Conservatism Bias, Illusion of control bias, Recency bias.

(Al-Ajmi, 2008) examined the level of risk lenience of retails investors in Bahrain. The study considered1484 respondents. It has been observed that the individual investors who has more financial responsibility and other liabilities has less level of risk tolerance.

(Matoussi, 2009) examined the psychographic characteristics that impacts the investor's behaviour in Tunisia considering 92 stock brokers as respondents. The study identified that under confidence, conservatism, precaution, and information inferiority complex are the factors impacting behaviour of investors.

(Joost, 2011) identified how investor's behaviour change and their impact during 2007-2009 financial crises primary data of the clients. The study concluded that investors who has high risk appetite have more turnover of investment transactions as compare to those who have lower risk tolerance level.

(Bikas E., 2012) analysed the influence of behavioural biases like cognitive and emotional biases, psychographic impact on the financial decisions making process of amateur retail investors. The researcher used historical data to determine perception of investors through comparison of different types of investor and descriptive method to analyse the influence.

(Athur, 2014) examined behavioural characteristics that impact the retail investors' investment decision in Kenya. The study conducted on sample of 30 retail investors. It analysed that cognitive biases such as representative biases, deception of control, herd mentality, hindsight biases contributed positive correlation with individual investor's decision whereas over-optimism, regret aversion, loss aversion and self-attribution were not positively related with individual investment decision.

(Roberta, 2017) studied factors such as cultural difference, stability, investment and cultural transmission in 38 countries. The study concluded that the impact of such factors influence the decision making process of retail investors.

It is concluded from the analyses of above literature that all the contribution of study in the body of knowledge are mainly on behavioural aspect, psychographic characteristics, different traits of personality, perspectives and biases. Most of the literature is based on primary data in different geographies, however in Indian context, not much research contribution in the area of financial behavioural biases and their influence on retail individual investor's investment decision making process. There is no recent study which shows comprehensive study related to analysing influence of behavioural finance biases on investment decision making process of individual retail investor.

V Problem Identification& Research Gap

After undertaking detailed study of research done in the field behavioural finance, one important part of research gap in India is that most of the researchers considered consumer behavioural perspective. However International study is more focused to understand behavioural finance and its impact on investment decision. Hence there is a need of study detailed financial behavioural biases and it has influence on investment decision making process, their perception. It is important to study the different biases that exist among investors. This is a completely new approach in the fundamental study of theory of behavioural finance for economic decision and behaviour of individual investor in Indian stock market. The study will help immensely to the stake holders of Indian capital market.

VI Conclusion

In concluding, the recent financial and investment scenario in capital market shows significant influence of individual investor behaviour. It is imperative to study the behavioural biases and its impact on investment decision making process. The study will immensely help to stakeholders in capital market such as regulators, brokers, financial institutions and retail investors. We can say from above literature review that behavioural finance has a vital role in financial decision process of retail investor. In India, the participation of retail investors witnessed 40% rise post pandemic hence this is the right time to consider and evaluate behavioural biases and their influence on individual retail investor's investment decision process and overall impact on financial market.

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