Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 9, August 2021: 3503-3509

Research Article

A qualitative perspective on behavioural biases affecting investment decisions of stock market investors

[1*]Santosha Kumar Mallick, [2]Dr. S.S. Debasish

[1*]Research Scholar, Department of Business Administration, Utkal University, Bhubaneswar-751004, India
[2]Associate Professor, Department of Business Administration, Utkal University,Bhubaneswar-751004, India

Abstract

Human decisions are rational or irrational. This view has shown that people have bias and cognitive barriers that prevent them from reaching full understanding when making financial decisions. With regards to singular investment choices, it is essential to recollect that every investment choice accompanies a specific level of vulnerability and hazard. There is adequate proof that because of the rise of market disappointments, markets respond diversely to the conduct of a logical man. Different biases keep individuals from logical thinking. People are blessed with understanding, which allows them to evaluate all available facts. As a result of this, people alone can make accurate predictions about future events, allowing them to make major financial decisions. The concept of rationality is based on two ideas: "order of order" and "act of understanding." In the case of a conscious mind, one chooses a behaviour that enhances predictable spending, and in the case of practical comprehension, the investor chooses the type of activity that enhances consumption.

Keywords: Anchoring, Behavioural bias, Decision making, Disposition, Herding Behaviour, Investment decisions.

1. Introduction

Traditional currencies are built in the right market place. According to this, financial investors approach market data and product costs, and it is considered sensible. Albeit present day finance has gotten progressively complex, it is as yet hard to clarify the logical reasons why individuals act so impolitely when working with finance. While customary finance implies that individuals assess and work on their monetary choices, moral choices takes a look at what financial investors ought to do and incorporates conventional monetary establishments with what individuals do as far as business choices. Sociological and psychological fields are considered critical shifts in the field of ethical financial studies. Many studies have found behavioural discrimination among investors, as opposed to effective market speculation. The financial vision of morality, which ensures that moral discrimination affects people, replaces the classical rationality hypothesis. Behavioural finance has been defined as the study of how psychology affects the financial system and financial decisions.

Behavioural economics are new financial market events that have emerged as a result of traditional financial challenges. It is seen as a financial situation where agents do not fully think. Investors make decisions that increase profits while reducing costs.

Some of the pioneers of this field have developed moral discrimination which is considered to be the basis of moral finance. Inconsistencies between traditional financial and ethical areas are created to exacerbate moral bias. Many studies have challenged the notion and, as a result, Ethical finances have changed. Moral bias refers to inequalities in the way people make judgments about benefits and decisions about losses. The same person with the risk of disagreeing with a decision affecting the gain becomes the person seeking the risk to make the decision including the loss. Overconfidence, domination, adherence, disagreement, acquisition tendencies, commitment, accounting, fencing, and bias represented by a few factors that appear to be ethical financial elements that have a major impact on individual investor decisions.

Behavioural financiers state that multiple behavioural bias influences the investment decision-making process, which causes investors to go astray and make irrational investment decisions. Current research provides a comprehensive assessment of behavioural bias in individual decision-making. The value of this research article has grown exponentially, including in the theoretical and artistic contributions. Following the literature review, it was found that there was a need for a single study that included a systematic review of behavioural bias.

The purpose of the study was to see how previous behaviour or beliefs affected the outcome, and it was discovered that sticking to bias in one's beliefs leads to inconsistency. It then looked at how people resolve conflicts between their succeeding beliefs and previous behaviours by modifying their thought attitudes rather than their behaviours.. It also supported the idea that people reconciled the differences between their previous behaviour and their subsequent beliefs by harmonizing their circumstances with their own beliefs rather than their own. Discrimination-based research was conducted using data from undergraduate research studies of undergraduate students and financial industry experts to assess the effects of adherence to equity reimbursement rates. The background information for the titles has also been changed. It was also found that university students' assessments were influenced by the initial stock price, and professional testing was not economically or statistically significant, and that experts were unaware of the impact that was made by the returns in comparison to the expectations. The impact of hidden adverse effects caused by erroneous data on numerical judgments was assessed using strong event-related research in young, healthy people. The effect of adherence to investor rating on unit trust returns was investigated in the investment area where the courses were invested, and it was determined that the courses would change their ratings if they were later offered anchor. According to the study findings, the presence of the anchor did not affect the ratings of respondents. A study was conducted to evaluate trading strategies that promote discriminatory behaviour on investors. According to the findings of the study, the declining options define profit as broader variables and define trading methods that benefit the holding bias.

2. Literature review

Shin, H. & Park, S., (2018) said that although modern finances are increasing, it is still difficult to explain why people behave rudely when dealing with money for scientific reasons. Behaviour is an artistic way of describing the function of a financial market that is opposed to the perception of an active market. Traditional currencies held that price fluctuations always reflected fully the available information, but ethical finance claims that prices or security varied as a result of poor investment and poor financial performance in the financial markets. With greater investor engagement, ethical finance focuses on investor behaviour and decision-making processes. Overconfidence is a fundamental building block in the field of ethical finance. Overconfidence is a strong consequence of psychology, and has been identified as one of the main causes of market uncertainty. Overconfidence is a well-known crime that investors are overconfident of their knowledge and skills while ignoring the risks associated with financial decisions. Self-confidence is defined as complete self-confidence. When faced with security, when a trader is overconfident in his tactics and mindset, he is influenced by overconfidence. Overconfident investors may view event events as non-existent, possible or unlikely due to strong economic conditions. The impact of ethical bias on investment decisions such as the measurement of trade prices in the stock market. Overconfidence can lead to an increase in trading value. Face-to-face marketing products that are the face of new financial innovations have been studied in research-driven or gambling-oriented research. The findings of the study suggest that structured marketing assets are entirely related to investors ’behavioural preferences, particularly overconfidence. There are many moral aspects including: Overconfidence, Anchoring, Disposition effect, Herding bias.

2.1 Overconfidence

Ahmad *et al.*, (2019) studied that Overconfidence is a psychological aspect of ethical investments that have a profound effect on individual investment decisions. These decisions can be investments in stocks or other types of investments. Overconfidence is a widespread psychological choice of financial ethics that causes financial markets to malfunction by causing volatility in a highly volatile environment and restoring diversity. Many types of texts refer to the concept of overconfidence, but it can be explained in a better way. Overconfidence is a emotional and psychological choice which leads the investor to believe that the parameter is more important than that, and it is also thought that one's judgment is worse and worse. With those judgments, one can never learn the right distribution. During the period of overconfidence, it was found that the general fund manager was doing well in the market. Without a lot of evidence to show that overconfidence is rampant, there is little attention in the economy. Choosing overconfidence has received a lot of research and there are a variety of behavioural patterns on the agent’s rational behaviour. According to researchers, overconfidence is often the result of an oblivious attitude. It has been shown that overconfidence leads to increased trading volume and falling prices in the stock market. Overreacting by investors is caused by overconfidence in their ability to understand or absorb information. Contrary to this study, researchers argue that overconfidence is a good indicator of individual investment performance followed by market crises. Overconfidence is therefore a misdemeanour when people focus on their strengths, knowledge, perception, or maximizing the potential for a particular event.

2.2 Herding behaviour

Alrabadi *et al.*, (2018) stated that herding is a common occurrence in the financial market. In times of turmoil in the financial markets, it is natural for a person to direct, watch, and copy the behaviour of others. Investors do not make sound decisions to invest in the pastoral care. They prefer to base their financial decisions on the beliefs and opinions of other investors. As a result, when investors are pastors, they tend to impose their decisions and follow the lead of others. The emergence of the stock effect is often talked about in times of market turmoil, such as market volatility, price bubbles, and rumours. Shepherding is defined as a co-ordination that leads to a combination of mobility. **Qasim *et al.*, (2019)** stated that Numerous study materials have also shown that pastoral behaviour can lead to similar patterns of social mobility, leading to significant social losses. The behaviour of the herd is described in another way in one of the study publications, namely that when agents are allowed to approach their network neighbours, the impact of responsiveness on network structure and game outcomes is recognized. This is known as pastoral behaviour. When some agents are willing to look for their naturally wealthy neighbours, a new type of business event known as pastoral behaviour is possible.

2.3 Anchoring

Anum, (2017) noticed that one of the most well-studied racism is anchoring. Choosing adherence affects investor decision-making processes. Anchoring is seen as an insightful belief that explains why ordinary people rely more on basic knowledge when making decisions. Investors tend to support the purchase of their shares at the latest high stock price. Such behavioural responses suggest that connection adherence is linked to low-level investor decision-making processes. Preferential selection seems to be a way to measure stock market returns or profits using a 52-week high-level ethics and resilience strategy under uncertain conditions. Researchers have discovered that anchoring has a negative impact on individual investors' or traders' investment judgments. Investigators argue that adherence, such as judicial choice, directs final decisions early in a judge's examination. According to heuristic anchoring-and-adjustment, anchoring bias is caused by inadequate adjustment. Heuristic anchoring promotes extreme limitations, often referred to as inactivity. People use this heuristic to make an anchor for other visible results and obey according to predicted information.

2.4 Disposition effect

Baker *et al.*, (2019) stated that the result of the situation is the performance of investors to avoid significant losses in anticipation of profits. The result of the situation is calculated by subtracting the percentage of gains earned from the losses component. Investigators have found the result of a trend as an investor's policy of keeping investments in the long run and selling winners to investment soon. The effect of the situation has a negative impact on a person's investment as financial losses often do not perform well, while successful investments often do. Investigators found that the fraudulent assessment of future profits or losses did not affect the impact of the situation.

3. Analysis

Jain *et al.*, (2019) stated that in terms of behavioural results, incorrect data refers to the final test in the upper direct relationship following the upper and lower anchors following. False data creates a weak adherence bias compared to uncertain data. A strong test of pricing in online markets also creates tangible behaviour. Research has looked at how informal information affects investment decisions, especially the effect of adherence seen in online bidding. The findings of the study revealed the presence of behavioural adherence during online auction. Researchers assessed the influence of the situation on the basic stock trading process in their study to better understand the bias of the effect of the effect on individual decision-making. According to the findings of this study, the situation can sometimes have a negative financial impact. The outcome of the situation is not affected by the chances of gain or expected losses in the newly established online trading environment. The study looked at the potential investment effect on Taiwan licensed market investors. The findings of the study indicated the existence of an influence on the situation in Taiwan's authoritative markets, as well as the fact that permits with different prices in the market showed a diverse character. Researchers have used trading account data from China to examine the role of influence in investing in making China's growing stock market. **Mushinada & Veluri, (2018)** found that Chinese investors made poor trade decisions and gained victories but not losses. They prefer to sell the profits at a price but not the ones that have fallen in price and have shown a more ethical behaviour. The report analysed the impact of the commercial discounted trading records for further analysis of the outcome. Artistic research suggests that wealthy and professional investors have a low profile when considering socio-economic factors.

Shantha (2019) suggested that Royal data was presented to analyse the broad market impact of the situation on the trading volume of Initial Public Offering, and the outcome of its disposal was determined to be more reliable due to the current purchase price presented by investors in the First Public Offering. Other studies, similar to this IPO study, investigated the aftermarket effects of the situation on IPO in the Bursa Malaysia market. According to the study, 2.64 repeated investors wanted to include a winning IPO rather than a failed IPO which resulted in a consistent result. Equity premium status function investigated. This paper has shown that the discovery of the status of investors causes investors to pay higher fees when depositing money in stocks. In the future of the Korean stock market, research has examined the effect of investment performance and found strong evidence of the existence of a financial performance effect. According to the study, individual investors are more affected by the trend than external and institutional investors. **Hsu *et al.*, (2021)** suggested there is a negative link between investment performance and the outcome of the situation, and the choice of firmness is stronger in long-term holding than short positions. Another study was conducted to support this study to investigate the effects of the situation on individual investors on the Taiwan Stock Exchange. According to the findings of this study, the level of education of individual investors is positively correlated with the impact of the situation. The role of the situation in Taiwan's co-operative fund investors has been researched. The findings revealed that the performance of the situation varies between markets. The impact of the situation was not found to be consistent among Taiwan's mutual fund investors. The findings revealed that the performance of the situation varies between markets. The impact of the situation was not found to be consistent among Taiwan's mutual fund investors. According to the findings, during a bad market, investors are investing their money more collectively than in the bull market. As a result of the study, it was found that the effect of the situation was also on investors in the co-operative fund in Taiwan (Raut *et al.*, 2018).

Metawa *et al.*, (2019) suggested that another approach to assessing the relationship to recovering unparalleled risks in the financial markets by the presence of pastoral practices was developed to determine the impact of pastoral elections on individual decision-making. The findings of the study revealed a reversed response in Asian financial markets due to pastoral conditions. An examination of Islamic conduct in Islamic banks and finances was tested in one of the studies. Pastoral behaviour was found to be the first order of the study. Herding effect on the company's business cycle has been studied in depth. The findings of the study revealed that an integrated livestock herding pattern was illuminated in the economic cycle of the firm. In contrast, evidence was produced in relation to the effect of pastoral care at times when markets were highly volatile, indicating that the distribution of exchange rate returns was declining due to intraday instability. One of the tests looked at how pastoral care affects decision-making in people. The findings of the study suggest that monitoring mechanisms are in place for individual investment decisions. In addition, it was established later in the study that pastoral bias varies between male and female animals.

Trejos *et al.*, (2019) stated that many studies have been instrumental in better understanding the impact of pastoral behaviour on investment decisions that are sold in a volatile market. According to the study, the tendency to pastoralism may reflect the choices made by fund managers. The effect of pastoral behaviour on various behaviours was studied experimentally. According to the findings, pastoral behaviour has a major impact on endless portfolio selection. In another study, the effects of institutional supervision on institutional investors were investigated, with this tendency considered to look at the same data published as well as to protect the work and reputation of investors. The oversight function of mutual fund manager management was investigated, and it was found that pastoral conduct was influenced by the paper profit margin and the paper loss rate. It has also been found that the tendency of fund managers to undermine financial performance.

There is a strong link between behavioural bias and decision-making.

- Investment decisions have a profound effect on Overconfidence.
- Investment decisions have a significant impact on Anchoring.
- Investment decisions have a huge impact on the Disposition.
- Investment decisions have a big impact on Herding.

Zahera & Bansal, (2018) suggested that the effect of the sale of pastoral behaviour disappeared. It has also been shown that the effect of the situation is to influence prejudice. The presence of a pastoral effect is particularly noted in Asian markets, as evidenced by the breeding of asymmetry during emerging markets. In addition, shepherding was seen in US and Latin American markets throughout the world. According to research by **Madaan & Singh, (2019)**, banking supervision varies with different types of loans. Reductions were found more frequently on home loans and credit cards than other types of loans, according to a study. In addition, the report looks at how large banks operate more than smaller and regional banks. In one of the studies, the existence of pastoral behaviour was tested between the stock market and the oil market during market turmoil. Researchers have found that stock market instability has led to a decline in the quality of farming. It has also been shown that the pastoral approach is inconsistent with both markets, and that pastoral behaviour is exacerbated by a lack of knowledge in both markets.

4. Conclusion

This analysis showed the behavioural bias existing regarding investment decisions in the stock market. Various factors regarding the behavioural bias like overconfidence, herding behaviour, anchoring and disposition effect was discussed. This is related to the study of behavioural psychology and behaviour economics. This study helps in revealing the deviations from the rationality which investors claim. Being a victim of cognitive bias, individuals alter their decisions which lead to exiting anomalies in the market. It can be said that decision making refers to selecting the best option out of a viable alternative available. This behavioural bias concept has come into being because of the social and intellectual nature of human beings which they apply into the process of decision making. Thus, this study shed light on this aspect regarding investment decisions in the stock market.

References

1. Ahmad Sabir, S., Mohammad, H., & Kadir Shahar, H. (2019). The role of overconfidence and past investment experience in herding behaviour with a moderating effect of financial literacy: evidence from Pakistan stock exchange. Asian Economic and Financial Review, 9(4), 480-490.
2. Alrabadi, D. W. H., Al-Abdallah, S. Y., & Aljarayesh, N. I. A. (2018). Behavioral biases and investment performance: Does gender matter? Evidence from Amman Stock Exchange. Jordan Journal of Economic Sciences, 5(1), 77-92.
3. Anum, B. A. (2017). Behavioral factors and their impact on individual investors decision making and investment performance: empirical investigation from Pakistani stock market. Global Journal of Management and Business Research.
4. Baker, H. K., Kumar, S., Goyal, N., & Gaur, V. (2019). How financial literacy and demographic variables relate to behavioral biases. Managerial Finance.
5. Hsu, Y. L., Chen, H. L., Huang, P. K., & Lin, W. Y. (2021). Does financial literacy mitigate gender differences in investment behavioral bias?. Finance Research Letters, 41, 101789.
6. Jain, J., Walia, N., & Gupta, S. (2019). Evaluation of behavioral biases affecting investment decision making of individual equity investors by fuzzy analytic hierarchy process. Review of Behavioral Finance.
7. Madaan, G., & Singh, S. (2019). An analysis of behavioral biases in investment decision-making. International Journal of Financial Research, 10(4), 55-67.
8. Metawa, N., Hassan, M. K., Metawa, S., & Safa, M. F. (2019). Impact of behavioral factors on investors' financial decisions: case of the Egyptian stock market. International Journal of Islamic and Middle Eastern Finance and Management.
9. Mushinada, V. N. C., & Veluri, V. S. S. (2018). Investor's overconfidence behaviour at Bombay stock exchange. International Journal of Managerial Finance.
10. Qasim, M., Hussain, R., Mehboob, I. and Arshad, M., 2019. Impact of herding behavior and overconfidence bias on investors' decision-making in Pakistan. Accounting, 5(2), pp.81-90.
11. Raut, R. K., Das, N., & Kumar, R. (2018). Extending the theory of planned behaviour: Impact of past behavioural biases on the investment decision of Indian investors. Asian Journal of Business and Accounting, 11(1), 265-291.
12. Shantha, K. V. A. (2019). Individual investors' learning behavior and its impact on their herd bias: an integrated analysis in the context of stock trading. Sustainability, 11(5), 1448.
13. Shin, H. & Park, S., (2018). Do foreign investors mitigate anchoring bias in stock market? Evidence based on post-earnings announcement drift. Pacific-Basin Finance Journal, 48, pp.224-240.
14. Trejos, C., van Deemen, A., Rodríguez, Y. E., & Gómez, J. M. (2019). Overconfidence and disposition effect in the stock market: A micro world based setting. Journal of behavioral and experimental finance, 21, 61-69.
15. Zahera, S. A., & Bansal, R. (2018). Do investors exhibit behavioral biases in investment decision making? A systematic review. Qualitative Research in Financial Markets.