



Exploring the Influence of Behavioural Finance on Investment Decisions: An Analysis of Investment Behavior in India

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ABSTRACT	
<p>Received: 17th Aug 2022 Revised: 06th Sept 2022 Accepted: 10th Oct 2022</p> <p>CC License CC-BY-NC-SA 4.0</p>	<p>The research aims to examine investors' behavior concerning investment patterns and identify the factors influencing their investment decisions. A questionnaire was administered to faculty members in Bikaner to gather data. The study finds that investor behavior plays a significant role in making prudent investment decisions. Therefore, when choosing a specific investment option, investors need to consider various factors such as life goals, spending habits, income, perception of investments, lifestyle changes, investment duration, risk tolerance, liquidity, and expected returns.</p> <p>Keywords: Behavioral, Finance, Savings, Investment.</p>

INTRODUCTION:

“People in standard finance are rational. People in behavioral finance are normal.”

- **Meir Statman** The complexities and anomalies observed in the stock market have spurred the emergence of a new field of financial research known as "behavioral finance." Financial market inconsistencies refer to patterns in returns from securities investments that cannot be explained by traditional theories. Behavioral finance investigates how psychological factors influence individual investment behavior, suggesting that investment decisions are impacted by emotions and psychological biases.

This approach posits that investors are susceptible to psychological factors like fear, hope, optimism, and pessimism, altering their decision-making processes. Researchers such as Kahneman and Tversky (1979), Shefrin and Statman (1994), and Shleifer (2000) have delved into the efficiency of financial markets and fluctuations in stock markets, contributing to the understanding of behavioral finance.

Contrary to traditional finance theory, which assumes investors are rational, well-informed, and unaffected by emotions, behavioral finance recognizes that investors often deviate from these assumptions. This realization has prompted a shift in finance theory towards understanding human behavior and incorporating psychological insights into investment decision-making processes.

Over the past few decades, behavioral finance has gained prominence as a new research area, challenging the traditional assumptions of finance theory. Researchers in this field advocate for considering human behavior in finance theory, utilizing psychological research to elucidate investment decision-making processes and establish behavioral finance as a distinct discipline.

LITERATURE REVIEW:

The emergence of behavioral finance as a contradictory approach, rather than a supplementary assumption, underscores its significance in understanding investment decision-making processes. This literature review aims to provide a concise overview of relevant research studies conducted on behavioral finance and its impact on investment decision-making.

Lewellen (1977) concluded from his research that factors such as age, sex, income, and education influence investors' preferences. Ippolito and Bogle (1992) observed that investors base their fund selection on past performance, with money flowing more rapidly into winning funds than out of losing ones. Shefrin (2001) defined behavioral finance as the study of psychology's impact on financial decision-making.

Phillip (1995) analyzed changes in financial decision-making and investor behavior following participation in investor education programs. In India, SEBI's awareness programs for small investors have led to value investing and informed investing. Madhusudhan and Jambodekar (1996) found that investors expect better services from companies where they invest, with safety of principal, liquidity, and capital gain being primary investment objectives.

A survey by SEBI (1998) revealed that investment behavior in the securities market is influenced by factors such as investment objectives, risk appetite, and available funds. Sewell (2005) concluded that behavioral finance studies the influence of psychology on financial practitioners' behavior and its subsequent impact on markets.

Tavakoli (2011) examined various factors influencing investors' decisions, finding that financial statements, consulting, financial ratios, and firm reputation are among the most influential factors. Kadariya (2012) investigated factors affecting investor decisions in the Nepalese capital market, highlighting the importance of media coverage, friends' recommendations, and financial indicators like dividends and earnings.

Against this backdrop, this paper focuses on studying behavioral finance's impact on investment decisions in Bikaner, with a particular focus on faculty members who play a crucial role in guiding future decisionmakers. While existing research highlights investment behavior, further empirical analysis is needed, particularly in the context of savings and investment decision-making. This research aims to bridge this gap by identifying various behavioral factors influencing investor decisions in Bikaner, given its unique economic landscape and limited earning options.

OBJECTIVE OF STUDY:

The study was undertaken with the following objectives in mind: I. To examine savings and investment decisions. II. To identify factors influencing investor decisions. III. To determine preferred investment options.

RESEARCH METHODOLOGY:

The study adopts an exploratory and descriptive approach. The methodology employed is outlined as follows:

Population:

The study encompasses investors located in Bikaner.

Source and Method of Data Collection:

Both primary and secondary sources of information are utilized. Data collection from the sample respondents is conducted through the distribution of questionnaires. Out of the 400 questionnaires distributed, responses were received from 358 respondents. The collected data is analyzed using various analytical tools such as percentages, frequencies, charts, and Likert scales.

DATA ANALYSIS AND INTERPRETATION**Age profile of the investors:**

21-30	99	27.6%
31-40	179	50%
41-50	55	15.5%

Above 50	25	6.9%
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50% of the total population falls in the age group of 31 years to 40 years while remaining 27.6% population falls in the age group of 21 years to 30 years.

Marital Status

Single	99	27.60%
Married	259	72.40%

72.4% of the total investors population and the remaining 27.6% are single.

Qualification

Doctorate	168	46.60%
M Ed	6	1.70%
B Ed	0	0%
PG	160	44.80%
Graduate	25	6.90%

As far as educational qualification is concerned 46.6% of the population had doctorate degree and 44.8% were Post graduates.

Monthly Income

Less than 5,000	31	8.60%
5,000-10,000	0	0%
10,000-20,000	12	3.40%
20,000-30,000	56	15.50%
Above 30,000	259	72.40%

72.4% of the total population belong to the income bracket of above Rs. 30,000, followed by income bracket between 20,000-30,000 with 15.5 % of the population, 8.6 % of the population have income less than 5,000 and the remaining 3.4% have their income between 10,000-20,000.

Years of Experience

Under 5 years	86	24.10%
5-10 years	86	24.10%
Above 10 years	186	51.70%

51.7% of the total population have an experience of above 10 years.

Assured Return [What is the main purpose for Investment decision?]

Highly Important	204	56.90%
Important	130	36.20%
Neutral	19	5.20%
Less Important	6	1.70%
Least Important	0	0%

56.9% of the total population consider assured return as highly important whereas 36.2% of the total population consider assured return as important.

Low Risk [What is the main purpose of Investment decision?]

Highly Important	93	25.90%
Important	167	46.60%
Neutral	80	22.40%
Less Important	12	3.40%
Least Important	6	1.70%

46.6% of the total population consider low risk as an important investment decision whereas 25.9% of the total population consider low risk as highly important investment option.

Tax benefits [What is the main purpose for Investment decision?]

Highly Important	111	31%
Important	204	56.90%
Neutral	37	10.30%
Less Important	6	1.70%
Least Important	0	0%

56.9% of the total population consider tax benefits as an important investment decision whereas 31% of the total population consider tax benefits as highly important investment decision.

Child Education [What is the main purpose for Investment decision?]

Highly Important	100	27.60%
Important	86	24.10%
Neutral	80	22.40%
Less Important	43	12.10%
Least Important	49	13.80%

27.6% of the total population consider Child education as highly important investment decision whereas 24.1% of the total population consider as important investment decision.

Daughter Marriage [What is the main purpose for Investment decision?]

Highly Important	62	17.20%
Important	49	13.80%
Neutral	87	24.10%
Less Important	55	15.50%
Least Important	105	29.30%

29.3% of the total population considers daughter marriage as least important investment decision whereas 24.1% of the total population consider daughter marriage as neutral investment decision.

Speculation [What is the main purpose for Investment decision?]

Highly Important	6	1.70%
Important	86	24.10%
Neutral	111	31%
Less Important	62	17.20%
Least Important	93	25.90%

31% of the total population considers speculation as neutral investment decision whereas 25.9% of the total population consider speculation as least important investment decision.

Capital Gain [What is the main purpose for Investment decision?]

Highly Important	80	22.40%
Important	173	48.30%
Neutral	55	15.50%
Less Important	19	5.20%
Least Important	31	8.60%

48.3% of the total population considers capital gain as important investment decision whereas 22.4% of the total population consider capital gain as highly important investment decision

Retirement [What is the main purpose for Investment decision?]

Highly Important	80	22.40%
Important	179	50%
Neutral	49	13.80%
Less Important	31	8.60%
Least Important	19	5.20%

50% of the total population considers retirement as important investment decision whereas 22.4% of the total population consider retirement as highly important investment decision

Secured Future [What is the main purpose for Investment decision?]

Highly Important	179	50%
Important	142	39.70%
Neutral	19	5.20%
Less Important	6	1.70%
Least Important	12	3.40%

50% of the total population considers secured future as highly important investment decision whereas 39.7% of the total population considers secured future as important investment decision.

Safety of Investment [What is the main purpose for Investment decision?]

Highly Important	216	60.30%
Important	124	34.50%
Neutral	18	5.20%
Less Important	0	0%
Least Important	0	0%

60.3% of the total population considers safety of investment as highly important investment decision whereas 34.5% of the total population considers safety of investment as important investment decision.

Investment amount [What are the factors which have implications on Investment Decision?]

Highly Important	124	34.50%
Important	216	60.30%
Neutral	6	1.70%
Less Important	12	3.40%
Least Important	0	0%

60.3% of the total population considers investment amount as important investment decision whereas 34.5% of the total population considers investment amount as highly important investment decision.

Potential Risk [What are the factors which have implications on Investment Decision?]

Highly Important	142	39.70%
Important	179	50%
Neutral	12	3.40%
Less Important	19	5.20%
Least Important	6	1.70%

50% of the total population considers potential risk as important investment decision whereas 39.7% of the total population considers potential risk as highly important investment decision

Potential Gain [What are the factors which have implications on Investment Decision?]

Highly Important	167	46.60%
Important	179	50%
Neutral	12	3.40%
Less Important	0	0%
Least Important	0	0%

50% of the total population considers potential gain as important investment decision whereas 46.6% of the total population considers potential gain as highly important investment decision

Tax advantage [What are the factors which have implications on Investment Decision?]

Highly Important	86	24.10%
Important	234	65.50%
Neutral	26	6.90%
Less Important	12	3.40%
Least Important	0	0%

65.5% of the total population considers Tax advantage as highly important investment decision whereas 24.1% of the total population considers Tax advantage as highly important investment decision.

Liquidity [What are the factors which have implications on Investment Decision?]

Highly Important	86	24.10%
Important	204	56.90%
Neutral	62	17.20%
Less Important	6	1.70%
Least Important	0	0%

56.9% of the total population considers Liquidity as important investment decision whereas 24.1% of the total population considers Liquidity as highly important investment decision

Customer Service [What are the factors which have implications on Investment Decision?]

Highly Important	93	25.90%
Important	148	41.40%
Neutral	86	24.10%
Less Important	19	5.20%
Least Important	12	3.40%

41.4% of the total population considers Customer Service as important investment decision whereas 25.9% of the total population considers Customer Service as highly important investment decision.

Ease of marketability [What are the factors which have implications on Investment Decision?]

Highly Important	62	17.20%
Important	167	46.60%
Neutral	86	24.10%
Less Important	31	8.60%
Least Important	12	3.40%

46.6% of the total population considers Ease of marketability as important investment decision whereas 24.1% of the total population considers Ease of marketability as important investment decision

Perception [What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	185	51.70%
Neutral	86	24.10%
Less Important	32	8.60%
Least Important	12	3.40%

51.7% of the total population considers Perception as important investment decision whereas 24.1% of the total population consider Perception as neutral important investment decision

Past experience [What are the factors which have implications on Investment Decision?]

Highly Important	99	27.60%
Important	160	44.80%
Neutral	62	17.20%
Less Important	25	6.90%
Least Important	12	3.40%

44.8% of the total population considers Past experience as important investment decision whereas 27.6% of the total population consider Past experience as highly important investment decision

Lack of Confidence [What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	148	41.40%
Neutral	99	27.60%
Less Important	43	12.10%
Least Important	25	6.90%

41.4% of the total population considers Lack of Confidence as important investment decision whereas 27.6% of the total population considers Lack of Confidence as neutral investment decision.

Information through Internet [What are the factors which have implications on Investment Decision?]

Highly Important	37	10.30%
Important	179	50%
Neutral	68	19%
Less Important	55	15.50%
Least Important	19	5.20%

50% of the total population considers as Information through Internet important investment decision whereas 19% of the total population considers Information through Internet as neutral investment decision.

Information from the Company [What are the factors which have implications on Investment Decision?]

Highly Important	99	27.60%
Important	124	34.50%
Neutral	99	27.60%
Less Important	31	8.60%
Least Important	6	1.70%

34.5% of the total population considers as Information from the Company important investment decision whereas 27.6% of the total population considers Information from the Company as highly important & neutral investment decision

Financial knowledge [What are the factors which have implications on Investment Decision?]

Highly Important	99	27.60%
Important	191	53.40%
Neutral	43	12.10%
Less Important	19	5.20%
Least Important	6	1.70%

53.4% of the total population consider Financial knowledge as important investment decision whereas 27.6% of the total population considers Financial knowledge as important investment decision

Ease of Purchase [What are the factors which have implications on Investment Decision?]

Highly Important	124	34.50%
Important	198	55.20%
Neutral	19	5.20%
Less Important	19	5.20%
Least Important	0	0%

55.2% of the total population considers ease of purchase important in taking investment decision.

Familiarity [What are the factors which have implications on Investment Decision?]

Highly Important	93	25.90%
Important	198	55.20%
Neutral	43	12.10%
Less Important	19	5.20%
Least Important	5	1.70%

55.2% of the total population consider Familiarity as important investment decision whereas 25.9% of the total population considers Familiarity as highly important investment decision.

Professional Investment Management [What are the factors which have implications on Investment Decision?]

Highly Important	80	22.40%
Important	173	48.30%
Neutral	74	20.70%
Less Important	25	6.90%
Least Important	6	1.70%

48.3% of the total population considers Professional Investment Management as important investment decision whereas 22.4% of the total population consider Professional Investment Management as highly important investment decision.

Suggestion by Friends [What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	191	53.40%
Neutral	80	22.40%
Less Important	38	10.30%
Least Important	6	1.70%

53.4% of the total population considers Suggestion by Friends as important investment decision whereas 22.4% of the total population considers Suggestion by Friends as neutral investment decision

Suggestion by Relatives [What are the factors which have implications on Investment Decision?]

Highly Important	43	12.10%
Important	148	41.40%
Neutral	74	20.70%
Less Important	74	20.70%
Least Important	19	5.20%

41.4% of the total population considers Suggestion by Relatives as important investment decision whereas 20.7% of the total population considers Suggestion by Relatives as less important & neutral investment decision.

Guidance by Investment Consultant [What are the factors which have implications on Investment Decision?]

Highly Important	68	19%
Important	167	46.60%
Neutral	68	19%
Less Important	43	12.10%
Least Important	12	3.40%

46.6% of the total population considers Guidance by Investment Consultant as important investment decision where as 19% of the total population considers Guidance by Investment Consultant as highly important & neutral investment decision.

Financial dailies [What are the factors which have implications on Investment Decision?]

Highly Important	37	10.30%
Important	191	53.40%
Neutral	55	15.50%
Less Important	68	19%
Least Important	6	1.70%

53.4% of the total population consider Financial dailies as important investment decision whereas 15.5% of the total population considers Financial dailies as neutral investment decision.

TV Channels [What are the factors which have implications on Investment Decision?]

Highly Important	31	8.60%
Important	160	44.80%
Neutral	62	17.20%
Less Important	80	22.40%
Least Important	25	6.90%

44.8% of the total population considers TV Channels as important investment decision whereas 22.4% of the total population considers TV Channels as less important investment decision

Colleagues /Peer Groups [What are the factors which have implications on Investment Decision?]

Highly Important	49	13.80%
Important	142	39.70%
Neutral	86	24.10%
Less Important	62	17.20%
Least Important	19	5.20%

39.7% of the total population considers Colleagues /Peer Groups as important investment decision whereas 24.1% of the total population considers Colleagues /Peer Groups as neutral investment decision.

Newspapers [What are the factors which have implications on Investment Decision?]

Highly Important	49	13.80%
Important	173	48.30%
Neutral	74	20.70%
Less Important	49	13.80%
Least Important	13	3.40%

After analyzing the data, the following interpretations can be made:

1. Approximately 50% of the total population falls within the age group of 31 to 40 years, while the remaining 27.6% falls within the age group of 21 to 30 years.
2. The majority, comprising 72.4% of the total investor population, are single.
3. In terms of educational qualifications, 46.6% of the population hold doctorate degrees, while 44.8% are postgraduates.
4. A significant portion, accounting for 72.4% of the total population, belongs to the income bracket of above Rs. 30,000.
5. Respondents indicated that they consider various factors highly important in their investment decisions, including assured returns, tax benefits, capital gain, low risk, safety of investment, securing future needs such as child education and daughter's marriage.
6. The factors influencing decision-making, as reported by respondents, encompass tax advantages, ease of purchase, familiarity, liquidity, recommendations from friends, assessment of potential risks and gains, financial knowledge, investment amount, access to financial dailies and internet information, professional investment management, perception, marketability, past experience, customer service, guidance from investment consultants, television channels, lack of confidence, and recommendations from relatives and peer groups/colleagues.

CONCLUSION:

Investment decision-making in India often relies on perception, word of mouth, and past returns, lacking a thorough and planned approach. This study aims to shed light on the behavior of different investors and its impact on investment decisions in the Indian market. Behavioral finance plays a crucial role in shaping investment decisions within the Indian capital market.

Through this study, an analysis of investor saving and investment behavior in the Indian capital market was conducted, gathering opinions from 358 respondents. Various parameters were considered to understand investors' behavior in investing in the Indian capital market.

The majority of investors, over 50%, fall within the age group of 31 to 40, and most are married, constituting 72.4% of respondents. Investment decisions are not rushed but require proper planning and education regarding various investment products. Approximately 46.6% of the population holds a doctorate degree. Most individuals invest their surplus funds in the capital markets, with a monthly income of Rs. 30,000 and above, accounting for 72.4% of respondents.

From the research, it is concluded that investor behavior significantly influences investment decisions. Selecting an investment option requires understanding an investor's complete behavioral pattern, including life

goals, spending habits, income, risk tolerance, liquidity needs, and expected returns. Successful investors align their psychology with analyzing different investment avenues and making informed decisions that align with their goals.

Although investing behavior in the capital market differs from general human behavior, certain common factors, such as goal clarity, product understanding, risk analysis, investment comparison, and alignment with individual goals and timeframes, are universally considered key factors in judging behavior and its link with capital market investments.

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