iJRASET
International Journal For Research in Applied Science and Engineering Technology



# INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

**Volume:** 12 **Issue:** XII **Month of publication:** Dec 2024

**DOI:**

www.ijraset.com

Call: 08813907089 | E-mail ID: ijraset@gmail.com

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
*ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538*
*Conference 'Technology and Knowledge Based Entrepreneur for Sustainable Industrial Development', held at Sridevi Women's Engineering College, Dec 2024*

# A Study on Impact of Behavioral Finance in Investment Decision, India

CH Deepthi
*Research Scholar, MRU*

***Abstract:*** ***The study efforts to investigate the behavior of investors towards investment pattern and to study the factors which an investor takes into thought while taking Investment decision. Study accomplishes that behavior matters a lot when it comes to making a prudent investment decision and thus in selecting a particular investment opportunity it entails investors complete consider factors like goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity and expected returns. This study aims to explore the impact of behavioral finance on investment decisions, recognizing the critical role psychological factors play in financial markets. Traditional finance theories often assume that investors act rationally; however, behavioral finance reveals that cognitive biases and emotional influences significantly affect investment choices***
***Keywords: Behavioral, Finance, Savings, Investment.***

## I. INTRODUCTION

Stock market complications and market irregularities have led to the evolution of a new field of financial research namely "behavioral finance". Financial market discrepancies are cross-sectional and time series plans in profits from investment in securities that cannot be projected by a central model or theory. Behavioral finance is the study of the impact of the psychological factors on an individual investment behavior. This new method of financial research advocates that investment decision is influenced by psychological and emotional factors.

This new method accepts that investors are influenced by psychological factors such as fear, hope, optimism and pessimism. Role of these factors in investment and trading has changed the path of research in the area of Behavioral finance. Kahneman and Tversky (1979), Shefrin and Statman (1994) and Shleifer (2000) are the researchers that have tried to investigate the effectiveness of financial markets and tried to discuss the fluctuations in stock markets. With rising challenges in market environment, investors can benefit and can beat the market if they accurately analyze the different investment options and securities.

Over the past few decades well-known finance theory had presumed that investors have little trouble in making investment decisions. The investors are educated, careful and consistent. The traditional theory holds that investors are not confused by how information is presented to them and not persuaded by their emotions. But evidently reality does not match these conventions and this led to move to new approach in finance theory.

Behavioral finance has gained reputation over the last two decades as new area of research due to the thought that investors rarely act as per the assumptions made in traditional theory of finance. Behavioral researchers have taken the opinion that finance theory should take into consideration the observation of human behavior. They use psychological point of view to develop an understanding of investment decision making and create the discipline of behavioral finance.

## II. LITERATURE REVIEW

The Behavioral theory showing the impact of human behavior on investing decision begins not as a extra assumption, but as a self-contradictory approach. In this portion of literature review, an effort is made to present a brief review of relevant research studies accepted out on the behavioral finance and its influence on Investment decision making.

Phillip (1995) analyzed the fluctuations in financial decision-making and investor behavior after joining in investor education programs. In India, SEBI organizes awareness program for small investors, which has started giving benefits, in terms of value investing and informed investing from retail investors.

Madhusudhan and Jambodekar (1996) concluded that investors assume better services from the Company where they invest. The widely held investors invest for safety of principal, liquidity and capital gain.

©IJRASET: All Rights are Reserved 

According to a survey conducted by SEBI (1998) investment objective of the investor, risk appetite, income or funds available for investment influences the investment behavior in securities market across different levels.

Sewell (2005) concluded that Behavioral finance is the study of the impact of psychology on the behaviour of financial consultants and the consequent effect on markets.

Tavakoli (2011) examined the different issues influencing the decision of the investors. He analyzed 13 factors to fix whether the investors consider these factors and decisions are influenced by these factors. He found that some of these factors are more persuading including financial statement, consulting with others, secondary information resources, financial ratios, reputation of the firm, profitability variable etc. Most important sub variable of profitability is the dividend.

Kadariya (2012) investigated factors influence on the investor decision. These factors include capital structure, political and media coverage, luck and financial education and trend analyses in the capital market. He concluded that most of the investors are youths and they take decision considering the media reporting and friends references as good source of information. Dividend, earning, equity contribution and government control are considered the most important factors while taking the decision. Investors when bears the loss blame to the market and when earns profit take whole credit to their own abilities.

Keeping this contextual in mind, this paper is intensive on the study of behavioral finance on Investment decisions in Hyderabad especially focusing on Faculty members as they can guide the future decision makers in a better manner. Although few research studies are available which highlights the Investment behavior of investors, but analysis of savings and investment decision making is still an area which needs to touch and require an empirical analysis. This research work is an attempt made to fill this gap in research. The main objective is to find various behavioral factors prompting the decision of investor in Hyderabad. Hyderabad is a city with number of options for earning. So how to manage or allocate money is a key area to focus.

## III. OBJECTIVE OF STUDY

The study was directed taking into consideration the following objectives:

*1)* To study the savings and investment decision of investors
*2)* To notice the factors which have an influence on the investor's decision and
*3)* To identify the widely preferred investment options.

## IV. RESEARCH METHODOLOGY

The study is investigative and descriptive in nature. The methodology of the study is discussed as follows:

### *A. Population*

The population for the study contains the investors of the Hyderabad.

### *B. Source and Tool of Data Collection*

The study uses primary as well as secondary source of information. For collecting data from the sample respondents, the questionnaire was used. Questionnaire were circulated to 500 people out of which reply was received from 358 respondents. The data collected was evaluated using different analytical tools like percentage, frequencies, charts, Likert -scale etc.

## V. DATA ANALYSIS AND INTERPRETATION

### *A. Age side view of the investors:*

| | | |
|---|---|---|
| 21-30 | 99 | 27.6% |
| 31-40 | 179 | 50% |
| 41-50 | 55 | 15.5% |
| Above 50 | 25 | 6.9% |

50% of the total population come under the age group of 31 years to 40 years while rest 27.6% population falls in the age group of 21 years to 30 years.

*B. Marital Status*

| | | |
|---|---|---|
| Single | 99 | 27.60% |
| Married | 259 | 72.40% |

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

*C. Qualification*

| | | |
|---|---|---|
| Doctorate | 168 | 46.60% |
| M Ed | 6 | 1.70% |
| PG | 160 | 44.80% |
| Graduate | 25 | 6.90% |

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

*D. 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 stay 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 lasting 3.4% have their income between 10,000-20,000.

*E. 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.

*1)* What is the main purpose for Investment decision? Assured Return

| | | |
|---|---|---|
| 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 reflect assured return as highly important whereas 36.2% of the total population consider assured return as important.

*2)* What is the main purpose of Investment decision? Low Risk

| | | |
|---|---|---|
| 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.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |

*3)* What is the main purpose for Investment decision? Tax benefits

| | | |
|---|---|---|
| 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.

*4)* What is the main purpose for Investment decision? Child Education

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

*5)* What is the main purpose for Investment decision? Daughter Marriage

| | | |
|---|---|---|
| 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 minimum important investment decision whereas 24.1% of the total population consider daughter marriage as neutral investment decision.

*6)* What is the main purpose for Investment decision? Speculation

| | | |
|---|---|---|
| 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.

*7)* What is the main resolution for Investment decision? Capital Gain

| | | |
|---|---|---|
| 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 conside capital gain as highly important investment decision.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |

*8)* What is the main purpose for Investment decision? Retirement

| | | |
|---|---|---|
| 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.

*9)* What is the main purpose for Investment decision? Secured Future

| | | |
|---|---|---|
| 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.

*10)* What is the main purpose for Investment decision? Safety of Investment

| | | |
|---|---|---|
| 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.

*11)* What are the factors which have implications on Investment Decision? Investment amount

| | | |
|---|---|---|
| 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.

*12)* What are the factors which have implications on Investment Decision? Potential Risk

| | | |
|---|---|---|
| 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.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |

*13)* What are the factors which have implications on Investment Decision? Potential Gain

| | | |
|---|---|---|
| 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

*14)* What are the factors which have implications on Investment Decision? Tax advantage

| | | |
|---|---|---|
| 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.

*15)* What are the factors which have implications on Investment Decision? Liquidity

| | | |
|---|---|---|
| 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

*16)* What are the factors which have implications on Investment Decision? Customer Service

| | | |
|---|---|---|
| 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.

*17)* What are the factors which have implications on Investment Decision? Ease of marketability

| | | |
|---|---|---|
| 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

*18)* What are the factors which have implications on Investment Decision? Perception

| | | |
|---|---|---|
| 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.

*19)* What are the factors which have implications on Investment Decision? Past experience

| | | |
|---|---|---|
| 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.

*20)* What are the factors which have implications on Investment Decision? Lack of Confidence

| | | |
|---|---|---|
| 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.

*21)* What are the factors which have implications on Investment Decision? Information from the Company

| | | |
|---|---|---|
| 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

*22)* What are the factors which have implications on Investment Decision? Suggestion by Friends

| | | |
|---|---|---|
| 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

After studying the above information following clarification could be drawn:

- 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.
- 72.4% of the total investor's population and the rest 27.6% are single.
- As far as educational requirement is considered 46.6% of the population had doctorate degree and 44.8% were Post graduates.
- 72.4% of the total population fit in to the income bracket of above Rs. 30,000.
- The respondents were queried about the purpose for Investment decision which they consider highly important. The respondents replied that they focus on assured returns, tax benefits, capital gain, low risk, safety of investment, secured future, child education and daughter marriage.
- Conferring to the answers received the factors which have an impact on decision making contains Tax Advantage, Familiarity, Liquidity, Suggestion by friend, Potential Risk, Potential Gain, Financial knowledge, Investment amount, Information through Internet, Professional Investment Management, Perception, Ease of Marketability, Newspaper, Past experience, Customer Service, Guidance by Investment Consultant, TV Channels, Lack of Confidence, Suggestion by Relatives.

## VI. CONCLUSION

Investment decision in India is taken into consideration by observation, by word of mouth, by returns. Fairly investment decision in India is not taken seriously and lack of proper planning for the long-term investment somewhat it is done hurriedly and no proper aspect of review regarding investment take place. So, to overcome this issue the study highlights the behavior of the different investor and how it impacted the investment decision in India. Behavioral finance is considered to be the important element in any investment decision in Indian capital market. Through this study the analysis of investor saving and investment decision making in Indian capital market is highlighted with 358 respondents' opinion is gathered. It is concluded from the study that behavior matters a lot when it comes to making a sensible investment decision and therefore in choosing a particular investment option it needs an investor complete behavioral pattern which includes goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process,natural habits, study of one's financials, risk bearing capacity, liquidity, expected return and connecting of the investment with the goals, the understanding of the investment objective in line with one's goals.

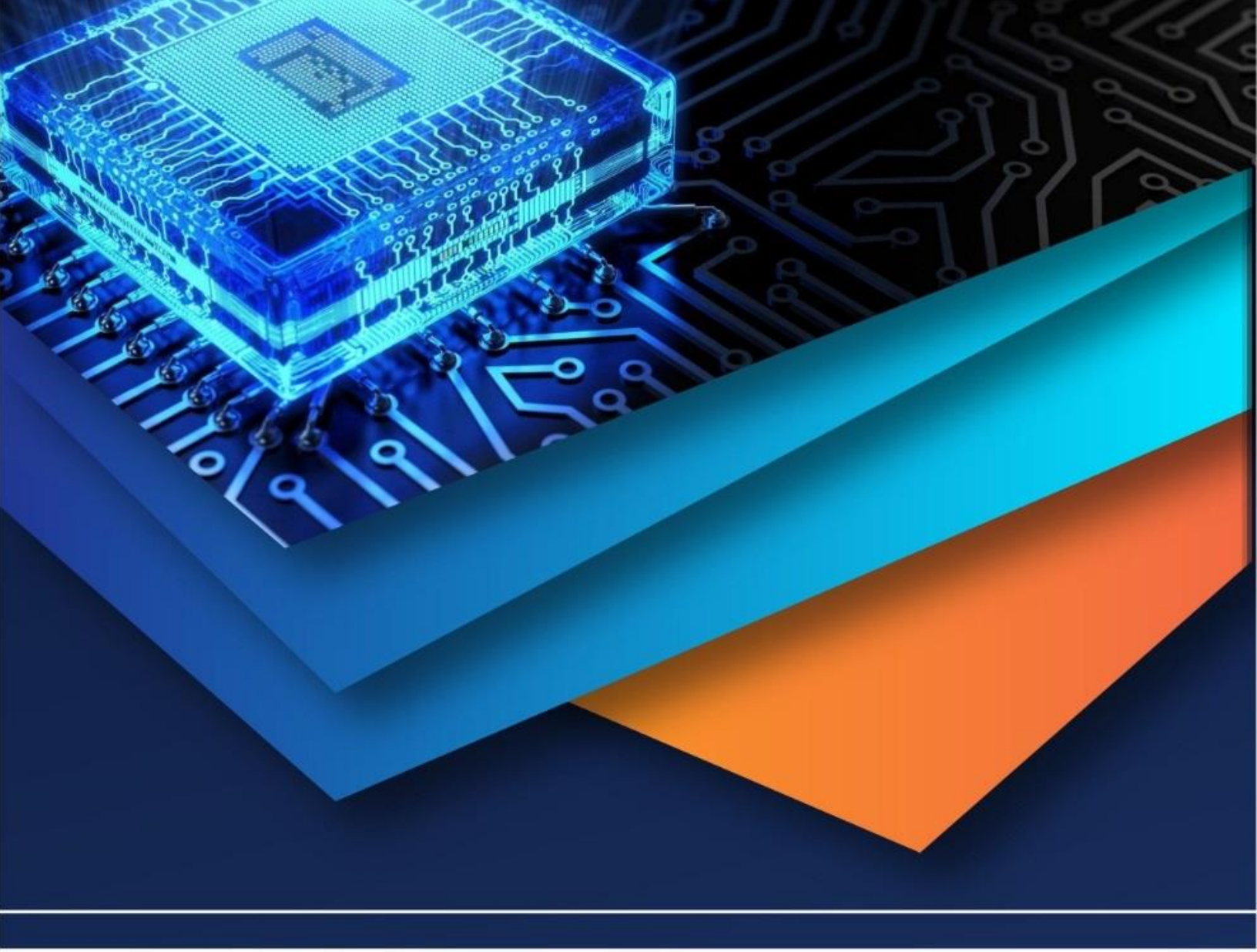
To be a effective investor one should tail one's psychology related to evaluating the different investment avenues in the Indian capital market and how to take a final decision in terms of choosing the best possible investment avenue. The behavior pattern of investing in capital market is different from general human behavior but there are certain mutual points like goal clarity, understanding the product, risk analysis, investment comparison, linkage with individual goals and requirements, time period of investment are some of the communal factors which are generally suitable key factors to judge an individual behavior and link it with the capital market investment in particular.

## REFERENCES

[1] Journal of Law and Economics, Vol. 35, pp. 45-70.
[2] Kadariya, Sudarshan, (July 8, 2012). Factors Affecting Investor Decision Making: A Case of Nepalese Capital Market, Journal of Research in Economics and International Finance (JREIF), Vol. 1(1), pp. 16-30, Available at SSRN: https://ssrn.com/abstract=2849888
[3] Kahneman, Daniel and Tversky, Amos, (1979). Prospect Theory: An Analysis of Decision Under Risk,

[4] Econometrica, Vol. 47, Issue 2, p. 263 1979. Available at SSRN: https://ssrn.com/abstract=1505880
[5] L. Bajtelsmit and A. Bernasek, (1996). Why do women invest differently than men?, Financial Counseling and Planning, vol. 7, pp. 1-10
[6] Lewellen, Wilbur G & Lease, Ronald C & Schlarbaum, Gary G, (1977). Patterns of Investment Strategy and Behavior among Individual Investors, The Journal of Business, University of Chicago Press, vol. 50(3), pages 296-333, July.
[7] M. M. Wallach, and N. Kogan, (1961). Aspects of judgment and decision making: Interrelationships and changes with age, Behavioral Science, vol. 6, pp. 23-26.
[8] Madhusudan V. Jambodekar, (1996). Marketing Strategies of Mutual Funds – Current Practices and Future Directions, Working Paper, UTI – IIMB Centre for Capital Markets Education and Research, Bangalore.
[9] Phillips, Gordon M., (1995). Increased debt and industry product markets: An empirical analysis, Journal of
[10] Financial Economics, 37, 189-238.
[11] R. A. Cohn, W. G. Lewellen, R. C. Lease, and G. G. Schlarbaum, (1975). Individual financial risk aversion and investment portfolio composition, Journal of Finance, vol. 30, pp. 605-620.

©IJRASET: All Rights are Reserved | SJ Impact Factor 7.538 | ISRA Journal Impact Factor 7.894 |



10.22214/IJRASET

45.98

IMPACT FACTOR: 7.129

IMPACT FACTOR: 7.429

# INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Call : 08813907089 (24*7 Support on Whatsapp)