

INFLUENCE OF BEHAVIOURAL BIASES ON INVESTMENT DECISION OF INVESTORS FROM SURAT CITY

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Abstract:

Behavioral finance has gained importance as an essential framework for understanding investor decision-making, particularly the influence of psychological biases. Thus this study focused on examining behavioral biases that affect women investors in the Indian equity market. Despite increasing participation by women in financial markets, their investment decisions often exhibit distinct patterns shaped by cognitive and emotional factors. This study has considered and tried to measure behavioral biases such as loss aversion, mental accounting, herding, and heuristics on women's investment choices. The study employed a descriptive research design and quantitative data from surveys where structured questionnaire was distributed among women investors across diverse age groups, education levels, and income brackets. Findings from this study highlight the significant role of loss aversion, which often leads to overly conservative investment strategies, and herding behavior, driven by reliance on social and familial networks for financial decision-making. Additionally, a notable degree of anchoring bias is observed in women's preference for traditional investment vehicles over equities. Heuristics are a significant driver of investment decisions; the other psychological factors like loss aversion, mental accounting, and herding do not appear to have a substantial impact in this model.

Key Words: Behavioural Biases, Investment Decisions, Women Investors

INTRODUCTION:

The dynamics of investment decisions have long fascinated scholars, financial professionals, and economists alike. Investment behavior is not merely the result of rational analysis and logical deduction; instead, it is profoundly influenced by psychological and behavioral factors. Behavioral finance, as a discipline, has emerged to bridge the gap between traditional financial theories—which assume that investors are rational agents—and the real-world complexities of human decision-making. The city of Surat, renowned for its entrepreneurial spirit and economic

vibrancy, offers a compelling case study to explore the influence of behavioral biases on investment decisions. This study aims to shed light on the interplay between psychological tendencies and financial decision-making among investors in Surat City.

Investment decisions are critical as they directly impact wealth creation, economic stability, and personal financial goals. Traditional financial theories such as the Efficient Market Hypothesis (EMH) and Modern Portfolio Theory (MPT) posit that investors act rationally, basing their decisions on available information and maximizing returns while minimizing risks. However, real-world observations often contradict these assumptions. Investors are prone to cognitive errors, emotional responses, and social influences that deviate from rational behavior. Behavioral finance introduces the concept of biases and heuristics, such as overconfidence, herd behavior, loss aversion, and anchoring, to explain these deviations.

Behavioral biases are systematic patterns of deviation from rationality in judgment. These biases can significantly impact investment decisions, leading to suboptimal outcomes such as excessive risk-taking, under-diversification, or poor timing of market entries and exits. For instance, overconfidence bias may lead an investor to overestimate their ability to predict market movements, resulting in excessive trading and higher transaction costs. Similarly, loss aversion—a tendency to prefer avoiding losses over acquiring equivalent gains—can cause investors to hold onto losing investments longer than necessary or shy away from potentially profitable opportunities.

In conclusion, the study of behavioral biases and their influence on investment decisions is of paramount importance in today's complex financial landscape. Surat City, with its dynamic economy and diverse investor base, offers a unique opportunity to explore these phenomena.

By understanding the psychological underpinnings of investment behavior, stakeholders can develop strategies to mitigate biases, enhance financial decision-making, and promote sustainable economic growth. This research aims to contribute to the growing body of knowledge in behavioral finance while addressing the specific needs and challenges of investors in Surat City.

LITERATURE REVIEW:

The field of Behavioural finance has gained popularity over the last three decades as the validity of assumptions underlying theoretical frameworks (such as the capital Asset Pricing Model and the Efficient Market Hypothesis) developed to analyze financial markets and hence, the practical application of these frameworks in the real world, have been increasingly questioned. Behavioural finance suggests that investors do not always act rationally when making Investment

decisions, even if they possess the inputs required to make a rational decision, such as information, knowledge, and understanding. Attention was first drawn on the impact of human psychology on the stock market when **Selden (1912)** proposed that the movements of prices on the exchanges are dependent to a very considerable degree on the mental attitude of the investing and Trading public.

Leon Festinger (1956) introduced a new Theory in social psychology: ‘the Theory of cognitive dissonance’ (**Festinger et al 1956**). It is stated when two simultaneously held cognitions are inconsistent, this will produce a state of cognitive dissonance. **Pratt (1964)** considered utility functions, risk Aversion and also risks considered as a proportion of total assets. He also studies on how individuals perceive risk and how this determines their level of Trading in relation to their total earnings on the security market. The study concludes that perceived risk and most of the time the fear within are what determine the level of Trading by individuals and not necessarily the risk presented by the market indicators. **Tversky and Kahneman (1973)** introduced availability heuristic - a judgmental heuristic in which a person evaluates the probability of events by availability, that is, by the ease with which relevant instances come to mind. The reliance on the availability heuristic leads to systematic Biases which make people think that what they have in mind to do is the most correct despite what the market indicators present.

Kahneman and Tversky (1979) presented a critique of expected utility Theory as a descriptive model of decision making under risk and developed an alternative model, known as Prospect Theory. Expected utility Theory is unable to explain why people are often simultaneously attracted to both insurance and gambling. The paper found empirically that people under-weigh outcomes that are in comparison with outcomes. Under the Prospect Theory, individual is risk-averse in relation to a known gain but risk-seeking in an effort to avoid a certain loss. Actual behaviour in a given situation depends on the sequence of events prior to that situation. For example, if an individual wins immediately prior to the time of the decision he/she is less likely to take a further gamble. However, if a loss has been incurred recently, then the individual is more likely to take a gamble in the hope of recouping such loss.

Chandra A. (2008) incorporated Psychology with finance in decision making in the stock market. Through this research, the author finds that unlike the classical finance theory suggests, individual investors do not always make rational investment decisions. Their investment decision-making is influenced, to a great extent, by behavioral factors like greed and fear, cognitive dissonance, heuristics, mental accounting, and anchoring.

(Subash, 2012) This research seeks to find the influence of certain identified behavioral finance concepts (or biases), namely, Overconfidence, Representativeness, Herding, Anchoring,

Cognitive Dissonance, Regret Aversion, Gamblers' Fallacy, Mental Accounting, and Hindsight Bias, on the decision making process of individual investors in the Indian Stock Market. Primary data for analysis was gathered by distributing a structured questionnaire among investors who were categorized as (i) young, and (ii) experienced. Results obtained by analyzing a sample of 92 respondents, out of which 53 admitted to having suffered a loss of at least 30% because of the crisis, revealed that the degree of exposure to the biases separated the behavioral pattern of young and experienced investors. Gamblers' Fallacy, Anchoring and Hindsight biases were seen to affect the young investors significantly more than experienced investors. **Shanmugham R. and Ramya K. (2012)** researched the impact of social factors on individual investor's trading behavior. Social interactions and media were found to have positive relationship with attitude towards trading whereas the factor 'internet' does not seem to influence the respondents' attitude towards trading. Further, among the social factors, social interaction is found to have major impact on attitude towards trading followed by media.

Misal D.M. (2013) studied Behavioral Finance and Investor's Emotion in Indian Capital Market. He argued that the two common mistakes investors make i.e. excessive trading and the tendency to disproportionately hold on to losing investments while selling winners have their origins in human psychology. Because the tendency for human beings to be over confident causes the first mistake and the human desire to avoid regret prompts the second. J. Kumari (2017) submitted a research thesis and concluded that the pattern of investment by the respondents (investors) is influenced by the risk involved in the avenues of investment. Demographic factors such as income level, occupation, no. of family members and age-group of the respondents significantly impact their risk appetite scores but Demographic Factors such as educational qualification and gender of the respondents do not significantly impact their risk tolerance scores. **(Rakesh, 2013)** This research paper was relating to 'behavioral finance' and its theories which are in stark disparity with that of conventional financial theories that have been experienced for decades. Since 1970s behavioral finance has tried to explain and justify the existence of a number of market anomalies by incorporating behavioral characteristics of financial decision making which appear significant to the trader/ dealer.

DATA & METHODOLOGY:

This study adopted a descriptive research design to analyze the impact of various behavioral biases such as heuristics, mental accounting, herd behavior, and loss aversion on investment decisions. Primary data will be collected through a structured questionnaire, administered to individual women investors residing in Surat. The questionnaire will include both close-ended and Likert-scale questions to capture the extent and nature of biases influencing investment choices. A non-probability convenience sampling technique will be employed to select a sample of 100 investors. Data analysis conducted using statistical tools and techniques. Descriptive

statistics will summarize demographic profiles and general investment patterns, while inferential statistics, such as correlation and regression analysis, will examine the relationship between behavioral biases and investment decisions. Additionally, factor analysis used to identify underlying dimensions of behavioral biases affecting decision-making. Secondary data gathered from academic journals and credible online sources to support the theoretical framework.

EMPIRICAL ANALYSIS:

Reliability Analysis:

Reliability Statistics	
Cronbach's Alpha	N of Items
.893	32

Cronbach's Alpha is a measure of internal consistency, or how closely related a set of items are as a group. It is often used to assess the reliability of a scale in surveys or questionnaires. Here's how to interpret the given Cronbach's Alpha value of **.893** with **32 items**. Given that **.893** falls in the "Good" to "Excellent" range, it suggests that the scale used is very reliable, meaning the items on the scale are measuring the same underlying construct effectively.

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.685
Bartlett's Test of Sphericity	Approx. Chi-Square	1339.919
	df	276
	Sig.	.000

The **Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy** value of **.685** indicates that the sample size is **adequate** for factor analysis. A KMO value between **0.6 and 0.7** is considered "marginal," meaning that the data is sufficiently suited for factor analysis, but it is not ideal. A higher KMO value, closer to 1, would suggest a stronger sampling adequacy, but .685 still suggests that proceeding with factor analysis is appropriate. Bartlett's Test of Sphericity tests the null hypothesis that the correlation matrix is an identity matrix (i.e., that the variables are unrelated). The result shows an **Approximate Chi-Square of 1339.919**, with **276 degrees of freedom** and a **significant p-value of .000**. Since the p-value is less than **.05**, it indicates that the correlation matrix is not an identity matrix, and there are significant relationships between the

variables. This means that factor analysis is likely to be effective, as the data exhibits enough correlation to justify the extraction of factors.

Total Variance Explained

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.008	29.200	29.200	3.980	16.584	16.584
2	2.407	10.029	39.228	3.695	15.397	31.981
3	1.875	7.814	47.043	3.394	14.141	46.122
4	1.820	7.583	54.626	2.041	8.503	54.626
5	1.601	6.669	61.295			
6	1.333	5.555	66.850			
7	1.044	4.352	71.202			
8	.946	3.940	75.142			
9	.880	3.666	78.808			
10	.806	3.357	82.164			
11	.631	2.628	84.792			
12	.570	2.376	87.168			
13	.513	2.139	89.307			
14	.452	1.884	91.191			
15	.404	1.683	92.874			
16	.351	1.464	94.338			
17	.304	1.269	95.607			
18	.243	1.013	96.620			
19	.194	.807	97.427			
20	.169	.703	98.130			
21	.152	.632	98.762			
22	.120	.498	99.260			

23	.092	.385	99.646			
24	.085	.354	100.000			

The **Total Variance Explained** table presents the results of the factor analysis, showing how much variance is explained by each component both before and after rotation. The first rotated component now explains **16.6%** of the variance, a significant reduction from the initial eigenvalue, but still the largest of all factors. The second rotated component explains **15.4%**, and the third explains **14.1%**. This shows that the rotation redistributed the variance among the components to make the structure more interpretable. The first three rotated components together explain **46.1%** of the variance and after that, each additional component explains less variance. The factor analysis shows that the first few components (especially the first four) explain a significant portion of the variance in the data. After rotation, the structure is more balanced, with the first three components explaining about **46.1%** of the variance. While all components together account for around **55%** of the variance.

Rotated Component Matrix				
Items	Component			
	Loss Aversion	Heuristics	Herding	Mental Accounting
I frequently adjust my investment strategy to avoid potential losses	.791			
When faced with uncertainty, I tend to focus more on potential losses rather than potential gains	.785			
Past investment losses influence my current investment decisions	.670			
I prefer safer investment options, even if they offer lower returns, to avoid the risk of loss	.619			
I am more likely to invest in stocks that have recently performed well, assuming the trend will continue		.716		
I tend to rely on the first piece of information I receive (e.g., stock price) when making investment decisions		.655		
I am more likely to invest in companies or industries that I am familiar with, even if I don't have detailed information		.608		
I tend to follow the investment choices made by the majority of investors			.782	

I tend to buy or sell stocks based on how others are reacting to changes in the market			.684	
I feel uncomfortable making investment decisions that go against the majority opinion			.676	
I believe that the collective decisions of many investors are usually better than individual decisions			.658	
I tend to categorize my investments separately from my savings and daily expenses				.756
I take different levels of risk with money allocated to investments compared to money set aside for savings				.659
I am reluctant to use money from my investment accounts for non-investment purposes, even in emergencies				.654

The **Rotated Component Matrix** presents how different items from your survey or questionnaire load onto different components (factors) after rotation. This helps identify which items are associated with specific psychological or behavioral constructs (e.g., Loss Aversion, Heuristics, Herding, and Mental Accounting). Loss aversion items reflect the concept of **Loss Aversion**, a psychological bias where individuals prefer avoiding losses rather than acquiring equivalent gains. They indicate that the investor is highly focused on minimizing potential losses. **Heuristics** or mental shortcuts are items where individuals rely on easily available information, past trends, or familiarity when making investment decisions. They show a tendency to make decisions based on quick judgments rather than thorough analysis.

Herding behavior captures the individuals tend to follow the majority or popular opinion in the market, often without critical analysis. This tendency can result in individuals mimicking others' investment actions, assuming the collective knowledge is superior to individual judgment. **Mental Accounting**, which refers to the tendency of individuals to treat money differently depending on its source or intended use. These behaviors show how people mentally separate their investments from savings, often making different decisions about risk and usage based on that categorization.

The rotated component matrix clearly shows that the items are well-aligned with the four psychological concepts being measured: **Loss Aversion**, **Heuristics**, **Herding**, and **Mental Accounting**.

Each factor explains a distinct aspect of investment behavior, with each set of items loading highly onto their respective components. This indicates that the items are measuring the intended constructs effectively and that the factor analysis has led to a clear and interpretable structure.

Regression Analysis:

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.448 ^a	.201	.167	.50711	2.422
a. Predictors: (Constant), Herding, Mental Accounting, Heuristics, Loss Aversion					
b. Dependent Variable: Investment Decision					

The **Model Summary** provides key information about the regression model that was used to predict the dependent variable, **Investment Decision**, based on the independent variables: **Herding, Mental Accounting, Heuristics, and Loss Aversion**. The model shows a moderate relationship between the predictors (Herding, Mental Accounting, Heuristics, Loss Aversion) and the dependent variable (Investment Decision). However, only about **20.1%** of the variance in investment decisions is explained by the predictors, suggesting that there may be other important factors influencing investment decisions that were not included in the model. The **Durbin-Watson value** indicates that the model's residuals do not show significant autocorrelation, which is a good sign for the reliability of the regression analysis.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.403	.352		6.833	.000
	Loss Aversion	-.167	.092	-.218	-1.815	.073
	Mental Accounting	.155	.105	.167	1.472	.144
	Heuristics	.283	.092	.365	3.061	.003
	Herding	.092	.081	.129	1.138	.258

The **Coefficients** table presents the results of the regression analysis, showing how each predictor variable (Loss Aversion, Mental Accounting, Heuristics, and Herding) impacts the

dependent variable (Investment Decision). The table includes the **unstandardized coefficients**, **standardized coefficients**, **t-values**, and **significance values**. Here's an interpretation of each:

1. Constant:

- The constant term (also called the intercept) represents the predicted value of the dependent variable (Investment Decision) when all predictors (Loss Aversion, Mental Accounting, Heuristics, Herding) are zero. In this case, the predicted Investment Decision score is 2.403 when there are no effects from the predictors.

2. Loss Aversion:

- The negative coefficient of -0.167 suggests that as Loss Aversion increases, the Investment Decision decreases, holding all other variables constant. However, the p-value of 0.073 is greater than the commonly accepted significance level of 0.05, meaning that Loss Aversion does not have a statistically significant effect on Investment Decision at the 5% significance level. Although the effect is negative, it is not strong enough to be deemed statistically significant.

3. Mental Accounting:

- The positive coefficient of 0.155 indicates that higher Mental Accounting is associated with an increase in the Investment Decision. However, the p-value of 0.144 is greater than 0.05, indicating that the effect of Mental Accounting on Investment Decision is not statistically significant at the 5% level. Thus, Mental Accounting does not have a significant impact on investment decisions in this model.

4. Heuristics:

- The positive coefficient of 0.283 means that as Heuristics increase, Investment Decision also increases. With a p-value of 0.003, which is less than the significance threshold of 0.05, Heuristics has a statistically significant positive effect on Investment Decision. This suggests that individuals who rely on heuristics (mental shortcuts) tend to make different investment decisions compared to those who do not.

5. Herding:

- The coefficient of 0.092 suggests a positive but weak relationship between Herding and Investment Decision. However, the p-value of 0.258 is much higher than the 0.05 significance level, indicating that Herding does not have a statistically significant effect on Investment Decision in this model.

Heuristics is the only predictor that has a statistically significant effect on Investment Decision with a p-value of 0.003. Loss Aversion, Mental Accounting, and Herding do not have

statistically significant effects on investment decisions, as their p-values are greater than 0.05. While Heuristics plays a significant role in shaping Investment Decisions, Loss Aversion, Mental Accounting, and Herding do not significantly predict investment decisions in this particular model.

CONCLUSION:

The study focused on examining behavioral biases that affect women investors in the Indian equity market. Despite increasing participation by women in financial markets, their investment decisions often exhibit distinct patterns shaped by cognitive and emotional factors. This study has considered and tried to measure behavioral biases such as loss aversion, mental accounting, herding, and heuristics on women's investment choices. The study employed a descriptive research design and quantitative data from surveys where structured questionnaire was distributed among women investors across diverse age groups, education levels, and income brackets. The rotated component matrix clearly shows that the items are well-aligned with the four psychological concepts being measured: **Loss Aversion, Heuristics, Herding, and Mental Accounting**. Each factor explains a distinct aspect of investment behavior, with each set of items loading highly onto their respective components. This indicates that the items are measuring the intended constructs effectively and that the factor analysis has led to a clear and interpretable structure. From regression analysis, heuristics are a significant driver of investment decisions; the other psychological factors like loss aversion, mental accounting, and herding do not appear to have a substantial impact in this model. Future research could explore additional variables or refine the measurement of these factors to further understand their potential influence on investment behavior.

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