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A Study on Factors Influencing Investors Psychology

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ABSTRACT: The study aims to gain a deeper understanding of investor sentiment development and market dynamics, as well as how people differ in their risk appetite and preferences. Understanding how people differ in their risk appetite and preferences, as well as how investor sentiment evolves and influences market dynamics. are the main aims of the research. The study aims to provide a deeper understanding of how risk appetite and preferences vary between individuals, as well as how investor sentiment evolves and impacts market dynamics. The study aims to gain a deeper understanding of investor sentiment development and how it impacts market dynamics, as well as how people differ in their risk appetite and preferences.

KEYWORDS: Investor psychology, herd behavior, conservatism, overconfidence, financial literacy

I. INTRODUCTION

Investor psychology is a key factor in determining market participants' behavior and affecting the dynamics of the financial markets. Investors may make irrational decisions as a result of emotions, cognitive biases, and herd mentality, which can cause asset prices to fluctuate wildly. Market volatility can be increased by panic selling or speculative buying brought on by fear and greed. Furthermore, cognitive biases like confirmation bias and overconfidence can skew judgment and result in unwise investment decisions. Market bubbles and crashes can be made worse by the propensity to follow the herd, which is frequently motivated by a fear of missing out or a desire to fit in with current trends. Investors and financial professionals must be aware of the effects of investor psychology in order to make more informed decisions, manage risks, and potentially take advantage of contrarian opportunities. Investors can strive for a more disciplined and effective approach to navigating the financial markets in the long run by comprehending and addressing these psychological factors.

II. OBJECTIVES OF STUDY

1. To understand whether there is positive correlation between all the study variables.
2. To study whether there is any variance between gender and the psychological variables affecting investment decision.

III. LITERATURE REVIEW

Overconfidence
Atif (2014) and Kengatharan (2014) state that overconfidence to negatively affect decision-making. Investors are reluctant to update and respond quickly due to the conservatism bias. their opinions in light of current information and advancement. (Mirza et al. 2022; Prosad et al. 2017; Kamoto 2014; Ul Abdin et al. 2022). Overconfident investors are self-confident about their facts and expertise and overlook the risk allied with investment decisions.

Conservatism
Lim (2012) and Kengatharan (2014)There are advantages to conservatism. significant influence on decision-making.
Atif (2014) and Kengatharan (2014)Investors are reluctant to update and respond quickly due to the conservatism bias. Their opinions in light of recent research and developments.

Herding
According to Hirt and Block (2012) It is more to herd. than with individual investors, more common with institutional investors.
(Yu, Dan, Ma, & Jin, 2018).In the financial market, herding is a phenomenon that is frequently seen. Human nature has a propensity toward this. During the erratic state of the financial markets, refer to, observe, and mimic other people's behavior.

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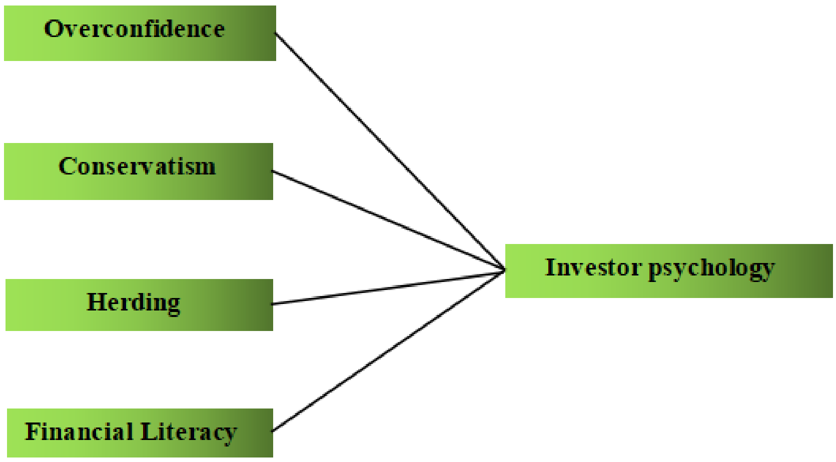
Financial literacy

According to Monique (2011), in developed economies, being financially literate might require knowledge of tax codes, insurance requirements, and credit cards, while for the 'unbanked' in the developing world, financial literacy is more likely defined by basic concepts of safe and secure savings, budgeting and wise borrowing.

Vera Dewi, Erie Febrian, Nury Effendi and Mokhamod Anwar (2020) were examined a study titled that "Financial Literacy among the Millennial Generation: Relationships between knowledge skills, attitude and behaviour." The study aimed to examine the correlation of their financial knowledge, financial attitude, and financial skills with respect to financial behaviour.

IV. RESEARCH GAP

Although overconfidence has been acknowledged as a widespread bias, more research is required to determine how it affects investment performance. Both individual investors and financial professionals would benefit from investigating the underlying mechanisms and figuring out ways to reduce conservation bias. Understanding the factors that influence herding behavior, such as social influence and information cascades, can offer insights into market dynamics and possibly even aid in the creation of interventions to lessen herding and its unfavorable effects.To gain a deeper understanding of cognitive biases in financial markets, it can be helpful to look into how availability bias influences investor decision-making and what that means for market efficiency



THEORITICAL FRAMEWORK

V. RESEARCH METHODOLOGY

Population of the study

The term "population" refers to the study of various characteristics relating to things or people who belong to a specific group. Students from different educational institutions make up the study's population.

Research design

The research design adopted for this study is descriptive research design. A descriptive study is required when the research is interested in learning the characteristics of particular groups, such as age, occupation, experience, etc.

Sampling technique

The sampling technique used was Convenience Sampling method. It refers to the technique where the convenience sampling of each cases being selected from the total population is known. In this study, random sampling was adopted for the survey.

Sample size

A total of 140 respondents were chosen for the study. The respondents who could be approached were chosen as samples.

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Data Used
Both primary and secondary data were used for this study. Primary data is collected by circulating questionnaire to employees. Secondary data is collected from journals, articles, websites and other materials.

Questionnaire
A structured questionnaire was used for this study.

Statistical Tests
Reliability test – Crohnbach Alpha

Reliability Statistics	
Factor	**Cronbach's Alpha**
Investor decision	.907
Herding bias	.651
Overconfidence	.752
Financial literacy	.771
Conservatism	.754

Statistical Package for Social Sciences (SPSS)
Thw software was used for analyzing the data collected for this study was SPSS version 23.

VI. LIMITATIONS OF THE STUDY

Sample Bias: It's possible that the study's participants don't accurately represent the entire investor population. The results might not apply to all investors, for instance, if the study only used a small sample size or concentrated on a particular group of investors.

Self-reporting Bias: The study may rely on participant-submitted data, which is prone to biases and inaccuracies. There is a chance that investors will occasionally give incomplete or inaccurate accounts of their feelings, thoughts, and actions, which could skew the outcomes.

Lack of objectivity: Because it involves comprehending and examining people's thoughts, beliefs, and motivations, interpreting investor psychology is frequently subjective.

Limited Range of Variables: Investor psychology is an intricate, multifaceted concept. Studies may, however, narrowly focus on a small number of variables or factors that affect investor behavior due to practical limitations.

External Validity: Results from a study carried out in a controlled laboratory environment might not accurately represent investor behavior in the real world.

Effects over time: Many studies on investor psychology use cross-sectional data, which provides a snapshot of investor behavior at a particular time. The study's conclusions might not provide a thorough understanding of the subject if they are not taken into account along with the dynamics and shifts in investor psychology.

VII. DATA ANALYSIS

CORRELATION
Null Hypothesis (H_0): There is no significance association between independent variables and investment Decision
Alternative Hypothesis (H_1): There is significance association between independent variables and investment Decision

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Correlations

		Herding Bias	Overconfidence Bias	.Financial Literacy	Conservatism	Investment Decision
Herding Bias	Pearson Correlation	1	.513**	.572**	.409**	.485**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	139	139	139	139	139
Overconfidence Bias	Pearson Correlation	.513**	1	.654**	.482**	.431**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	139	139	139	139	139
.Financial Literacy	Pearson Correlation	.572**	.654**	1	.552**	.474**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	139	139	139	139	139
Conservatism	Pearson Correlation	.409**	.482**	.552**	1	.432**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	139	139	139	139	139
Investment Decision	Pearson Correlation	.485**	.431**	.474**	.432**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	139	139	139	139	139

**. Correlation is significant at the 0.01 level (2-tailed).

Pearson's Coefficient of Correlation between Herding Bias and Investment Decision is .485**

Pearson's Coefficient of Correlation between Overconfidence Bias and Investment Decision is .431*
Pearson's Coefficient of Correlation between Financial Literacy and Investment Decision is .474*
Pearson's Coefficient of Correlation between Conservatism and Investment Decision is .432*
Since P value < 0.05

Inference:
The coefficient of correlation between independent variable and Attitude towards gender
which indicate their strong and positive relationship between them at 1 % level of significant. Besides, P value is less than 0.01 and null hypothesis is rejected. There is significance association between Independent Variables and investment decision.

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Interpretation:
All the independent variables have moderate association with investment decision hence there is Positive Correlation.

ONE WAY ANOVA
Null Hypothesis (H_0): There is no significance difference between gender and Attitude towards independent variable
Alternative Hypothesis (H_1): There is significance difference between gender and Attitude towards independent variable

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Herding Bias	Between Groups	62.640	3	20.880	.980	.404
	Within Groups	2876.598	135	21.308		
	Total	2939.237	138			
Overconfidence Bias	Between Groups	184.709	3	61.570	2.975	.034
	Within Groups	2794.083	135	20.697		
	Total	2978.791	138			
.Financial Literacy	Between Groups	54.939	3	18.313	1.311	.273
	Within Groups	1885.809	135	13.969		
	Total	1940.748	138			
Conservatism	Between Groups	32.477	3	10.826	1.529	.210
	Within Groups	956.027	135	7.082		
	Total	988.504	138			
Investment Decision	Between Groups	22.341	3	7.447	1.350	.261
	Within Groups	744.940	135	5.518		
	Total	767.281	138			

- **Herding Bias**
  P Value = .404
- **Overconfidence Bias**
  P Value =..034
- **Financial Literacy**
  P Value = .273
- **Conservatism**
  P Value = .210
- **Investment Decision**
  P Value = .261

Since P value = 0.05

Inference:
There is significance difference between gender and independent variable

Interpretation:
In this case, there is difference in all independent variable in comparison to gender

VIII. FINDINGS, SUGGESTIONS AND CONCLUSION

- The one-way ANOVA shows that significance difference between gender and Attitude towards independent variable.
- Pearson's Coefficient of Correlation between Herding Bias and Investment Decision is .485**
- Pearson's Coefficient of Correlation between Overconfidence Bias and Investment Decision is .431*
- Pearson's Coefficient of Correlation between Financial Literacy and Investment Decision is .474*
- Pearson's Coefficient of Correlation between Conservatism and Investment Decision is .432*

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- The positive Pearson's Coefficient of Correlation all the independent variables have moderate association with investment decision
- In investment decision, dependent variable 39.2 % of the respondents neutral about investment decision Your most recent stock investment has a return rate that is satisfactory.
- In investment decision dependent variable 45%of the respondents agree about investment decision The market's average return rate is matched by your rate of return or exceeded.
- In investment decision ,dependent variable32.14% of the respondents agree about investment decision You are happy with the investments you made in the previous year

SUGGESTIONS

- When making investing selections, investors are frequently faced with a plethora of options, and navigating this complicated landscape necessitates careful consideration of numerous elements. First and foremost, it's critical for investors to identify their risk tolerance and financial objectives. This stage ensures a more individualised approach to wealth management by assisting in matching investment strategies with personal preferences and goals.
- Overconfidence, which is frequently seen as a cognitive bias, can significantly impact interpersonal interactions and decision-making. This misguided confidence in one's skills or judgements can cause people to overestimate risks, disregard opposing viewpoints, and make poor decisions.
- Herding prejudice is a cognitive bias in which people follow the actions of the majority. It is commonly caused by a fear of missing out and a desire for social conformity. People can intentionally practise independent thought and decision-making to lessen herding bias.
- The term "conservatism bias" describes people's propensity to uphold their current opinions or ideas while opposing change or new information. This cognitive bias can show up in a variety of spheres of life, including decision-making and personal beliefs. The financial markets are one well-known area where conservatism bias is seen.
- A vital life skill that enables people to make wise financial decisions is financial literacy, or the capacity to comprehend and efficiently manage one's financial affairs.

CONCLUSION

- In conclusion, a study on factors influencing investor psychology can provide important insights into how human emotions, biases, and cognitive processes impact financial decision-making. Understanding these factors is essential for both individual investors and the financial industry to make more informed, rational, and profitable investment decisions.
- a study on factors influencing investor psychology is likely to emphasize the complex interplay of psychological and external factors that shape investment decisions. Understanding these factors is critical for both individual investors and the financial industry to improve financial decision-making and ultimately achieve more rational and profitable outcomes

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