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RELEVANCE OF BEHAVIORAL FINANCE IN INVESTMENT DECISION OF INDIVIDUALS

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ABSTRACT

Behavioural finance proclaims that instead of being rational and calculating, people often make investment decisions based on affections and cognitive biases. It helps us understand how investment decisions are greatly influenced by emotion, biases, and cognitive restrictions of the human mind in processing and responding to information. It is necessary to remain rationale instead of being emotional, prejudiced, and biased while investing and thus, behavioral finance delivers a blueprint to guide people in making better, more rational decisions of investment matters. This research is being conducted to analyse the relevance of behavioral finance in investment decision of an individual. The data of 485 respondents is collected through Likert based structured questionnaire on behavioural influences related to Investment Decision. Responses are analysed through descriptive statistics and bi-variate analysis using SPSS, AMOS and Smart PLS. Results of statistical analysis- EFA, CFA and SEM demonstrate that investment decision of people is highly influenced by their psychological components which can lead them towards irrational investment decisions. Overconfidence, Representativeness, Self-Attribution Bias, Familiarity and Representativeness are the major psychological determinants affecting investment behaviour as per the statistical results of this research. Moreover, the relevance of these psychological elements varies as per the demographic profile of an individual as found in non-parametric test results. Due to these psychological components, people don't remain balanced while selecting different investment avenues for their investment. They assign less or more importance to the specific component of investment decision which can hinder the growth of their portfolio return. Thus, this study on the relevance of behavioral finance while planning for investment would help financial planners and investment advisors in suggesting rationale and customized portfolio of investment to their clients by convincing them to avoid mistakes that will decrease their personal wealth.

Key words: Overconfidence, Representativeness, Self-Attribution, Familiarity Representativeness