The Relationship between Behavioural Finance and Personal Investment Decision Making: A Case Study of India

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Abstract

The study mainly investigates the relationship between behavioural finance and personal decision taking aspect in India. The research paper reviews and examines the relevant research and influence of behavioural investment decision-making. The paper shows the work of investor behaviour and the importance of making investment decisions. The study aims to establish the priorities of behavioural biases and their influence on investor's decision-making. Behavioural finance shows the factors in this research paper that affect personal investment decision-making. The study focuses on an inductive approach for specific observations related to this study. A qualitative design is taken in account within this study to gather and analyse the data to enhance insights and the experiences on the concepts of the relationship between behavioural finance and personal investment decisions. The entire study has found a strong relation between behavioural finance and personal investment decision making in Indian business market sphere.

Keywords: Behavioural Finance, Personal Investment, Decision, India.

1. Introduction

Behavioural finance is an area of study focusing on how psychological influences affect market outcomes. According to Paule-Vianez et al. (2020), an analysis of behavioural finance can be done to understand different products across various industries and sectors. One of the significant aspects of the study of behavioural finance is the influence on psychological biases. Behavioural finance is the study of psychological effects on financial markets and investors. Behavioural finance is generally associated with explaining and identifying mispricing and inefficiency in the financial markets. It utilises research and experiments to demonstrate that financial markets and humans are not always rational, and their decisions are often flawed. The investment decision is a decision that comprises the investment of various resources to gain the highest possible return on investment. Investment decisions are often categorised as either short-term or long-term investment decisions.

Personal investment decision-making is how an individual invests in the market. It involves the different steps that the individual takes to make investment decisions. A person has to go through different phases before deciding to invest. There are various emotions a person has to undergo before he can determine an investment. Emotion plays a vital role in investment decision-making. Investment decision-making is no easy topic. It is the most crucial process as it involves considerable money. For this reason, behavioural finance has a significant role to play in the field of personal investment decision-making. According to Madaan et al. (2019) the emotion factor is vital in investment, where behavioural finance becomes essential. Behavioural finance is the field that analyses the role of emotions in investment. Emotions play a significant role in acquisition, as money is associated with investment; hence, different emotions are associated with investment. Money is hard-earned and an essential factor in everybody’s lives. For this reason, investing is associated with emotions. While investing, if there is extreme gain or loss, emotions can get intense. Investment is closely associated with feelings, and emotions are essential in supporting.

2. Aim and Objectives

The present research aims to understand the interrelation established in between behavioural finance and individuals' investment commitment.

2.1 Objectives

- To gather proper insight related to behavioural finance and investment decisions in India.
- To examine the role of human emotions in the financial decision-making procedure of individuals.
- To explore the different challenges related to emotional bias faced in behavioural finance.
- To identify the strategies with the help of which personal investment decisions can be improved.

3. Materials and Methods

The declaration of methods used to perform a study helps provide a more practical understanding of the overall steps and strategies undertaken to finish the work. The method of inductive research approach is developing theories that are related on specific data and observation (Kyngäs, 2020). This study focuses on an inductive approach to source specific observations relevant to this study. Qualitative research design is used in this study; this research design helps the researcher to analyse and collect non-numerical data to understand the concepts and experiences. Qualitative research design is used to gather or collect in-depth insight for the researcher to generate new ideas. This study uses A secondary data collection method to collect the data from previous and peer-reviewed online sources. Thematic analysis is one of the most helpful tools for analysing secondary qualitative data with a well-reaborative process (Kumar et al., 2022). Thus, a thematic analysis technique has been selected to analyse various secondary qualitative data taken into account in this particular study.

4. Findings

4.1 Viability of Human Emotions in Investment Decision-Making

Several past studies have shown how emotions play an essential role in shaping investment decisions; it has also demonstrated that feelings can lead to irrational and impulsive decisions, which can impact the returns negatively. For this reason, the study of behavioural finance has come into existence that tries to understand the influence of emotions on developing strategies and financial decisions in order to help investors make better decisions. According to De Bortoli et al. (2019), one of the central themes in behavioural finance concerns the role of fear and greed in the decisions of investments. Greed and fear are two of the most critical emotions associated with investment. A person shall inevitably face these two emotions, greed and fear, when he is investing a lot of money in some destination. A person shall be in fear while investing; the fear shall be of whether the investment shall fail. These two emotions intermingle together in a person’s mind while he is supporting. The two emotions, greed and fear, can critically impact the investors' decision-making and behaviour. These two emotions can often influence individuals to make irrational or impulsive choices.

A suitable emotional response to perceived uncertainty or risk is fear. It is generated when a more significant risk or uncertainty is associated with adverse outcomes. As far as investing is concerned, anxiety can make the individuals risk-averse, which means that the person would be uninterested to take risks. According to Goyal et al. (2021), they start to avoid investments that they understand to be of high risk; they tend to avoid the investment even if there is potential for high returns. This tendency can negatively affect the asset when a person shrinks from taking risks on investments with higher potential returns. It leads to missed opportunities for investment, and it can also lead to lower returns over the long term. Conversely, greed refers to the desire for material gain or wealth, often paired with taking excessive risks. When a person is greedy while investing, no opportunities shall remain unexplored. According to Costa et al. (2019), one shall go for every option that is present. One starts to take excessive risks in the hope of outsized returns. Greed can push individuals to go for high-performing investments, even though they are unaware of the potential risks involved. This behaviour of the investor can lead to significant losses. The role of greed and fear in the decisions regarding investment states the importance of perceiving the influence of emotions on financial choices.

There are other emotions associated with investments, like hope, overconfidence and hope; these emotions also influence a person's investment decisions. The influence of these emotions refers to another important aspect of

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behavioural finance. This emotion may have an essential influence on how individuals approach investments; it also has a significant impact on making decisions that can impact the financial outcomes of the investors. According to Sattar et al. (2020), regret is the feeling of dissatisfaction or disappointment with a decision that was made in the past. Regret can cause investors to avoid their past investment mistakes, leading them to make more conservative decisions. Hope is the emotion of optimism or anticipation as far as future outcomes are concerned. In a field such as investing, hope can push a person to take excessive risks to gain high returns. This can lead to over-optimism, which leads to taking imprudent risks that will ultimately lead to potential losses. Overconfidence is an emotion that can drive an investor to make impulsive decisions like taking excessive risks and trading frequently.

4.2 Relevance between behavioural finance and investment decision in India

Individual investors are extensively influenced by the several biases that are showed in behaviour finance. According to the perception of Madaan & Singh (2019), behavioural finance proposes the process of investment decision making which is influenced by several and different behavioural biases that boost the decision-making process of investors. Four behavioural biases impact the decision-making process of the investors: overconfidence, disposition effect, anchoring and herding bias. An overconfidence behavioural bias is a psychological trait that significantly impacts investor's decision-making in India. As mentioned by The Economic Times (2022), essential behavioural factors that impact people's investment decisions are "Overconfidence", "Loss Aversion", "Herding Behaviour", "Momentum Effect', "Limited Attention Span", and "Anchoring Biases". The critical behavioural effect of disposition on the investors is to refrain from loss and gain. The anchoring behavioural biases also affect the investor's decision-making process in India. Herd behavioural finance is a common human nature to observe and refer others during an irregular financial market.

Behavioural finance is based on the belief in the efficiency and rationality of investors in India. Rationality refers to the new information by the market agent, and efficiency refers to all the relevant information in the market price. According to Ogunlusi and Obademi (2021), personal investment of decision-making that is concerned with the purchase choices of small and little amounts of financial securities. Individual investment decision-making is a cognitive process based on the present situation of the stock market. Behavioural factors affect the investor's decision-making. Behavioural factors such as representative bias, overconfidence bias, mental accounting, and herd behaviour and regret aversion affect the personal investor's decision-making in India. Investors are enlightened about the facts of many behavioural factors, which can also affect their investment of the decision-making.

Knowledge of the investors and their decision-making process is about investments and saving, which can be enhanced by their retirements and age, which are associated with the behaviour of the investors. As per the opinion of Adil et al. (2022) stated behavioural biases and financial literacy to comprehend the investor's behaviour. The rising curiosity about the behaviour of finance is reviewing the impact of financial literacy on the personal investing decisions of investors. Financial literacy and behavioural finance significantly impact the investor's behaviour.

4.3 Challenges experienced by emotional biases in behavioural finance

The aspects of behavioural finance are making investment and financial decisions that are inspired and influenced by the role and importance of selling and buying securities. From the viewpoint of Anwar et al. (2023), investors' decision is the series of the process of both organisations and individuals deciding on investment. Behavioural elements and aspects make the investor's investment decision-making process. It also increases the role of financial behaviour that determines the selling and buying of securities. The investors choose several ways to invest according to their expectations and wishes, including financial and actual investments. Alternative investment is available with several high and low-risk types, with some fixed to varying income. The self-control of the investors refers the ability of the individuals to control emotion, thought and behavior bias.

Emotional biases indicate the high level of determination, punctuality, organisation and purpose of the individual investor's investing process. According to Singh et al. (2023), risk tolerance behaviour moderates with herding behaviour. The investors' high level of negative emotion is referred to in the herding behaviour. The behavior of

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risk-tolerance moderates and influences the relevance between behaviour biases and the personality traits. Behavioural finance focuses on the practical implications of the financial advisor and investors. The individual investors can overcome the risk tolerance and biases during the investing. The financial advisors advise the investors to establish a point of lock-gain and stop-loss to overcome behavioural biases. Behavioural finance moderates the effect of risk tolerance and also decreases the impact of biases on the investors deciding on investment.

The investors' risk perception is personalised on the return uncertainty and the financial instrument. As per the opinion of Saivasan and Lokhande (2022), the factors of the risk propensity influence the relevance and concepts between behavioural biases and behavioural finance. Several factors influence risk perception, such as overconfidence, anchoring, familiarity and biases of experiential, which define and showed the construct of behavioural biases. Rastogi (2022) highlights and identifies the overconfidence bias is the common behavioural bias in investing that predicts future investments and opportunities. Anchoring bias mainly refers to the investors making an investment decision. Investors' opportunities are based and related on factors such as risk tolerance and market trends.

4.4 Influence of financial literacy and past financial behaviour of the country on investment decisions

Financial literacy enhances individual behaviour and defines people's knowledge about the financial concept. According to the perception of Alshebami and Al Marri (2022), the consciousness and awareness is raised of the people by financial literacy about their skills of risk management and opportunities of business and helps to develop the business profit. Financial literacy is essential in pointing out the barriers of lack of funds to build new ventures. Financial literacy is necessary for the financial resources and the business's funding. Lack of awareness and financial literacy leads the higher cost of borrowing, business investment, and poor financial behaviour. As Rathore (2022) mentioned, 85% of Indians have a secondary education in a financial institute. In 2011, it was 31% but increased to around 75% in 2017. It is essential to improve the financial learning of the people all around India to encourage them towards financial investments.

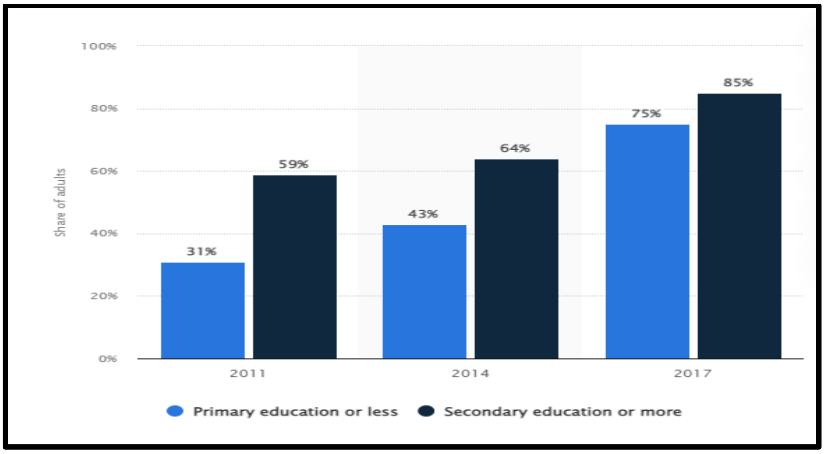

Figure 1: Influence of financial literacy and past financial behaviour of the country on investment decisions

(Source: Rathore 2022)

The uncertainty, risk and volatility during the pandemic of Covid-19 affect the financial market. The investors' perspective evoked the financial decision-making process of the investors. Financial weakness and economic inequality is the main reason in India that affected financial literacy during the pandemic time. The complex and dynamic situation impacts financial education and is required to ignore the financial mismanagement. During the pandemic, financial technology expanded financial well-being. COVID-related restrictions mainly affected the sampling techniques of financial education.

Financial literacy is an international policy achieved through the financial people who make the financial well-being and decisions. As per Khan et al. (2022), financial services are the key to enhancing prosperity and poverty through financial education. Financial literacy highlights the importance of finances and the economy in India.

The investors' interest in financial literacy brings financial inclusion. Financial inclusion measures and uses the services of financial. Financial inclusion deals with the financial service and depth of the legal system. Financial literacy and inclusion enhance the economy around the world.

4.5 Impact of psychological factors and risk perception on investment decisions in the stock market

National culture had an impact on investors and the financial markets during the pandemic of Covid-19. According to Fernandez-Perez et al. (2021), Covid-19 has affected the country's economy and financial condition. Financial markets are going low in the country during the pandemic time. Psychological factors are related to the financial services and investors' investment decisions. During the pandemic, the investors affected their self-control and their mental condition. Self-control includes the ability and viability to manage the information of financial services. Investors use the strategy of self-control during the pandemic to control their thoughts, pressure and the planning of investments. The investor’s guide their responses and policymakers in the stock market when they design and plan about the investments.

The outbreak of COVID-19 declined in financial markets, but it did not continue and losses quickly, especially in the Indian stock market. As per the opinion of Şenol & Zeren (2020), the stock market is where financial instruments are sold and bought. The stock markets can be affected by several factors, such as social, cultural, political and psychological factors. In the stock market during the pandemic, the value of registered firms decreased, and the financial instrument prices also decreased in stock markets. The pandemic negatively affected the stock market all over the world. As Rathore (2022) mentioned, the growth of capital investment in 2022 across India is around 16 billion dollars of funding. Compared to the previous year, it has been decreased by around 16%. It has been predicted that the growth capital investment rate in India will reach rapidly in the upcoming days. Behavioural finance theories suggest the quality of the information and the ultimate risk to the investors. Investors are more aware of the impact of psychological factors, which increase the rationality in the stock market and the investor’s decision-making. According to the perception of Aljifri (2023), behavioural finance in the stock market explains the stock market theories. Investors' psychology, market valuation and stock price affected the fundamental company factors. The investor’s psychology factor is overconfidence bias, which has a significant and important impact on the process decision-making of the investors

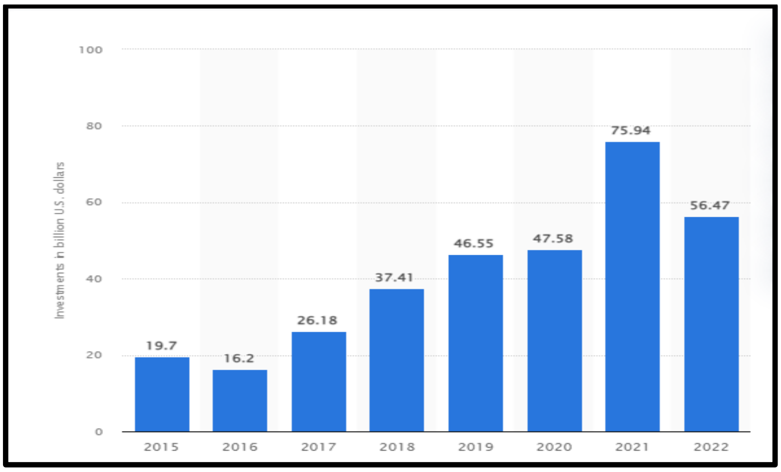

Figure 2: Impact of Psychological Factors and risk perception on Investment decisions in the stock market

(Source: Rathore 2022).

4.6 Strategies to encourage investors in personal investment in the Indian market

Deploying the renewable primary objective in India advances economic development and improves the mitigation and energy security. From the viewpoint of Majid (2020), the use of sustainable development ensures access to affordable, sustainable, modern energy in the world's most attractive stock market. Strong government support increases the situation and attracts renewable energy in the market. The government of India has designed programs and policies to attract foreign investors' investments to increase the economic situation in the Indian stock market. Renewable energy creates several opportunities for investors. India has achieved economic growth and energy. The strong increasing and growth of the economy in India demands the energy and more sources of energy. The central government of India must include the policy of "Must Run Status" to make renewable power.

In India, energy has increased in recent years due to the increasing population. The energy has demand and increased currently due to the global economic development. According to Irfan et al. (2019), the changing industry environment in India will develop the wind power competitiveness. The competitiveness industry enhances the capacity of innovation and creates the value chain. The role of the government is important to create the value chain in the financial industry. Intelligent thinking comes from money, which helps the people in India to understand the investment and the knowledge of diversification. As presented by Rathore (2023), the stock market changed the current price of GDP in 2023 in India, which was estimated to be an Indian rupee of 2 trillion. Compared to the previous year, it increased during the change of stock market, which was over 2.18 trillion in Indian rupees. It signifies that the implication of effective strategy in the financial sector can revamp the investment rate of potential investors to boost the Indian economy.

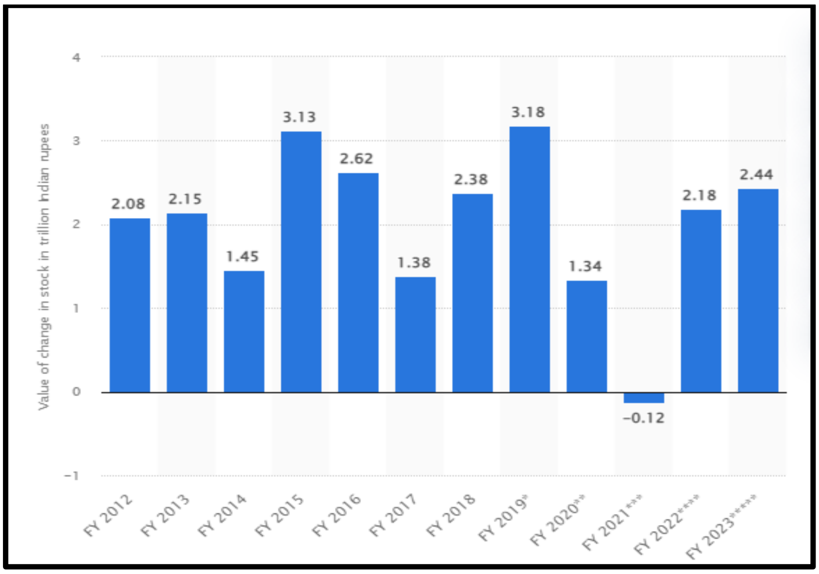

Figure 3: Strategies to encourage investors in personal investment in the Indian market

(Source: Rathore, 2023)

5. Discussion

The findings of this study highlighted that behavioural finance which treats the investors as they they are not too smart. The investors build and create their investment decision which is based and rely on behavioural biases, and it has a great affect on the inventors. The behaviours of the investors also affect their decision to invest. Behavioural finance is calculating the assert, and often, it makes financial decisions which are based on cognitive and emotional biases. Often, the investors feel the pain of their loss. Behavioural finance influences the psychological effects such as fear and emotion as well as the consciousness of the investors always makes them make rational decisions about their investments. Investors' decision-making depends on the information in the financial statement for the future. Behavioural finance considers the theories in the financial market. The standards and traditional financial theories are based on investors and the efficient market.

The findings of this study highlighted that several factors influence the investor's investment making decision, such as overconfidence, anchoring, and herd financial biases. The key behavioural effect of disposition on the investors is to refrain from loss and gain. The anchoring behavioural biases also affect the investor's decision-making process in India. The investment decision is allocated with capital value, and it maximises the financial investment and expenses. With the internet, financial investments bought money, investment and economic purchases to improve productivity, and it also raised the margins of profit in the stock market. The investors' perspective evoked the financial process of decision-making of the investors. Financial weakness and economic inequality is the main reason in India that affected financial literacy during the pandemic time.

Behavioural finance calculates and often makes financial decisions based on cognitive and emotional biases. Behavioural finance helps analyse and produce the insight that helps investors to develop a strategy for future investment. Psychological factors are related to the financial services and investors' decision to invest. During the pandemic, the investors affected their self-control and their mental condition. The competitiveness industry enhances the capacity of innovation and creates the value chain. Behavioural elements and aspects are making the investor's investment process of decision-making. The government's role is important to create the value chain in the financial industry. The significant relevance between the financial bias and the process of investor's decision to invest has both strong positive and negative impacts on economic strategy.

6. Conclusion

To conclude this study, it has been included that the behavioural finance theories have both advantages and disadvantages in the decision of investor's investment. Four factors are included in this study to show the psychological factors that impact the investor's investment decision, such as overconfidence, herd, anchoring, and mental accounting. The behavioural bias impacts on the decision-making process of the investors influence and attract them to invest in the Indian stock market. The investors' interest in financial literacy brings financial inclusion. Financial inclusion measures and uses the services of financial. Financial inclusion deals with financial services and depth with the legal system. Financial advisors must advise the investors according to their education regarding the financial biases of the investor's investment decision.

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