ABSTRACT

The financial system of India today has a plethora of investment opportunities. With the growing economy, the investor’s disposable income in the hands of the investors also increases with more scope for saving. This retail segment of investors is significant as only 8 percent of the household financial saving population invest in mutual funds in India, thereby providing a vast scope for the industry to engage this segment and expand. The proponents of Behavioral Finance believe that investors are not always rational and that there are many human cognitive biases that cause investors to make systematic errors (biases) in their judgment and these biases have serious implications in investment decision making. The investment behavior of mutual fund investor who is looking both for safety and good returns have not been explored as much as the stock market investor. The mutual fund as an investment avenue is gaining prominence in India and in this context, the study is an attempt to explore the mutual fund investor psychology and the role of bias in the selection of mutual funds. The study focuses on five important bias namely Overconfidence Bias, Self Attributive Bias, Illusion of Control, Loss Aversion and Herding Behaviour.

The main objective of this study is to explore the influence of biases on investment decisions among mutual fund investors. The study tries to answer the following research questions. 1) Are the mutual fund investors influenced by
these biases? 2) Do demographic factors have an influence on the investor bias? If so, how significant is their influence? 3) Is there a relationship between the investor biases taken up for the study? If so how significant is their relationship? And 4) Does one bias lead to the other? To answer the above questions, the following hypothesis was tested. 1 There is significant relationship between biases and investors’ demographic variables 2) Self Attributive Investors are also Overconfident 3) Overconfidence investors are Loss Averse and 4) There is a significant association between Illusion of control and Self attribution. 5) There is a significant association between Herding Mentality and Illusion of Control.

To test the above mentioned hypothesis, the primary data was collected from a sample of 309 Mutual Fund Investors in Bangalore City. The study uses a survey research method. A questionnaire was designed with questions on 1) the demographic information of the investors and 2) questions to capture the dimensions of Overconfidence Bias, Self Attribution Bias, Illusion of Control, Loss Aversion and Herding Bias. Rating scales were used for the same. The data was analysed using both descriptive and inferential statistics. To find the significant relationship between the demographic variables (independent variables) and the biases (dependent variable) taken up for the study, an ANOVA test was used. Correlation Analysis is done to find the association between the biases and regression was used to find if one bias can be a significant predictor of the other and the regression equation was estimated for the same.
Findings of this study suggest that 1) Men are more Overconfident than women. 2. Overconfidence among investors increases with age. 3. Experienced investors are more overconfident than novice investors. 4. The level of Overconfidence increases with the level of education. 5. The level of Overconfidence also increases as the level of income of investors increases. 6. Investors with long term investor horizon are more overconfident than short term investors. 7. Self attribution bias increases with education. 8. There is a significant difference in the level of Illusion of Control Bias between investors at different levels of income. 9. Women are more loss averse than men. 10. Novice Investors are more loss averse than experienced investors. 11. Direct investors are more loss averse than financial consultants. 12. Level of Loss Aversion is higher for short term investors than long term investors. 13. Self Attribution is a significant predictor of the dependent variable Overconfidence. 14. Self attribution is a significant predictor of the dependent variable Illusion of Control and 15. Illusion of Control is a significant predictor of the dependent variable Herding.

This study confirms the presence of bias among mutual fund investors. It also proves that the demographic variables have a significant impact on the bias, though some of the findings are contrary to earlier studies. There is also evidence of significant association between biases, suggesting certain biases could lead to the other, like there is signification association between overconfidence bias, self attribution and illusion of control. Controlled experimental studies can throw