ABSTRACT

Conventional financial theories mainly include modern portfolio theory and efficient market hypothesis. Whereas the emerging field of behavioural finance investigates the psychological and sociological issues that have an impact on the decision making process of individual investor. According to the traditional economic theory which is based on efficient market hypothesis (EMH), the stock prices can fully reflect all the relevant information of the capital market. Individual investors can only earn normal returns by analysing available information in the public domain (Eugene Fama1970). In reality, investors are likely to make different decisions (Kahneman & Tversky 1979) or they may follow the recommendations of the portfolio managers. Though the individual investors are able to obtain better information about the capital market, their decisions are not completely rational due to the existence of various investment biases. These biases consequently lead to suboptimal returns. This study tries to understand the various behavioural biases, big five personality traits and behavioural aspects of the individual investors in Indian capital market. The behavioural biases included in this study are overconfidence, recency and conservatism biases. The behavioural aspects examined in this study are ‘careful’, ‘confident’, ‘anxious’ and ‘impetuous’ as developed by Thomas Bailard, David Biehl and Ronald Kaiser. Further Big Five personality traits are the other five dimensions used to describe human personality. The Big Five personality traits are: ‘neuroticism’, ‘openness’, ‘conscientiousness’, ‘extraversion’ and
‘agreeableness. This enables the classification of investor’s personalities. The relationship between big five personality traits and investor biases; relationship between demographic profiles and investor biases; behavioural aspects and investor biases; demographic profiles and behavioural aspects are investigated in the study.

According to the evidence from the prior empirical studies, most of the individual investors have strong investment biases such as recency, conservatism and overconfidence. Generally, investors with behavioural biases lack confidence and competence to make better investment decisions. The investment behavior is affected by the personality traits of the investors and their sentiments. Therefore, it is necessary to study the psychological aspects of the investors in their investment decisions. Though in the developed nations, many studies have been conducted on investor behaviour, hardly very few have been carried out in the Indian context. Hence a study is required to investigate the personality traits, behavioural aspects and behavioural biases of individual investors across various demographic categories of investors in the Indian capital market.

Behavioural finance attempts to illustrate why individual investors systematically diverge from rational behaviour, challenging major assumptions of a number of conventional financial models such as Modern Portfolio Theory (MPT) and Efficient market Hypothesis (EMH). Based on these factors, the following research objectives are formulated: to investigate the big five personality traits among the individual investors; to examine the
behavioural aspects among the individual investors; to investigate the behavioural biases among the individual investors; to identify the relationship between big five personality traits and the investment biases among the individual investors; to examine the relationship between demographics of individual investors and investment biases among the individual investors; to investigate the relationship between behavioural aspects and investment biases among the individual investors and to explore the relationship between demographic profile of the individual investors and behavioural aspects among the individual investors.

The study focuses on individual investors who are the clients of Shriram capital, a leading brokerage house in the Chennai city, India. Statistical techniques such as descriptive statistics, ANOVA, correlation, regression and structural equation model (SEM) are used for the analysis. Majority of the respondents are in the age group of 26 - 45 years. The number of male respondents is more than that of females. Most of the respondents are graduates or post graduates. Married respondents are more in number than the single respondents. Majority of the respondents belong to the salaried class. More than 58% of respondents are those who earn between Rs.2 lakhs and Rs.5 lakhs per annum. Prime saving objective of the respondents is tax planning. The results show that the big five personality traits such as neuroticism, extraversion and agreeableness are present in both male and female investors. Majority of the investors are agreed that they monitor their investments on day to day basis, even though they are long term investors.
Individual investors like to hold diversified portfolio. This is contrary to the general belief that investors hold undiversified portfolio. Multiple regression tests indicate conservatism and overconfidence biases influence the extraversion personality traits of the investors. Same way these biases also influence the conscientiousness trait. Anxious behavioural aspect of investors is correlated with all the big five personality traits. The results of the structural equation modelling show that respondents who possess extraversion trait are not overconfident in their investing abilities. Respondents who possess neuroticism and conscientiousness traits have significant relationship with overconfidence bias. This means that the investors with the traits of neuroticism and conscientiousness overestimate their ability to evaluate a stock as an investment opportunity. These investors hold concentrated portfolio, there by taking on more risk. These investors also trade very frequently which results in higher transaction cost. Neuroticism is related to recency bias. This implies that they ignore proper asset allocation. This causes investors to ignore the importance of the fundamental analysis and to focus on recent upward price performance of the stock. The study clearly shows that investors are biased. These biases are the reflections of their personality traits.