ABSTRACT

BEHAVIOURAL FINANCE IN INDIVIDUAL INVESTORS DECISION MAKING IN PORTFOLIO INVESTMENT – AN ANALYSIS

As Decision-making is a complex activity, it can never be made in a vacuum by relying on the personal resources and complex models, which do not take into consideration the situation. Much of the economic and financial theories presume that individual investors act rationally in the process of decision making, by taking into account all available information. But there is evidence to show repeated patterns of irrationality in the way humans arrive at decisions and choices when faced with uncertainty. Behavioral finance, a study of the market that draws on psychology, throws light on why people buy or sell stocks and why sometimes do not buy or sell at all. The most crucial challenge faced by the investor is in the area of investment decisions. The profit made, or losses incurred by an investor can be attributed mainly to his decision-making abilities. The fact that even the most prominent and well-educated investors were affected by the collapse of the speculative bubble in the 2008 subprime crisis proved that something was fundamentally missing in the traditional models of rational market behavior. In this study, focus is to establish the existence of such fundamental issues, driven by various psychological biases, in the investment decision-making process. Behavioral economists firmly believe that psychological factors influence investment decisions. They argue that today’s investment decisions demand a better understanding of individual investors’ behavioral biases. However, many economists believe completely in the application of traditional theories in the decision making process and hence do not consider the concept of irrational behavior. In this context, it seems relevant to check and fill the research gap that whether the behavioral factors have an influence on the decision making process of portfolio investors.